INDIAN ECONOMICS

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Contents

Nature of Indian Economy

Study of Indian Economics in order to be fruitful must be development-oriented. A word about the nature of Indian economy, as it was and as it is now, will be useful in analysing the various problems of Indian economy.

Till recently, Indian economy used to be described as an under-developed economy. It is now more appropriate to describe it as also a developing economy. In under-developed countries output per capita is relatively low. In an under-developed economy, there are certain potentialities for economic development but the productive efficiency increases at a painfully slow speed. Poverty, hunger, disease, illiteracy and lack of opportunity for self-development is the lot of mass of the people. Here is a more comprehensive description of an under-developed country. "It is a country characterised by poverty, with beggars in the cities, and villagers cling out a bare subsistence in the rural areas. It is a country lacking in factors of its own, usually with inadequate supplies of power and light. It usually has insufficient roads and rail roads, insufficient government services, poor communications. It has few hospitals, and few institutions of higher learning. Most of the people cannot read or write. In spite of general prevailing poverty of the people, it may have isolated islands of wealth, with a few persons living in luxury. Its banking system is poor; small loans have to be obtained through money-lenders who are often little better than extortionists. Another striking feature of an under-developed country is that its exports to other countries usually consist almost entirely of raw materials, ores or fruits or small staple product with possibly a small admixture of luxury handicrafts. Often the extraction or cultivation of these raw materials exports is in the hands of foreign countries" The Indian Planning Commission defines an under-developed country as one "which is characterised by the co-existence, in greater or less degree, of unutilized or underutilized manpower, on the one hand, and of unexploited natural

resources on the other." The existence of idle resources, as stressed by this definition, is undoubtedly an important characteristic of an under-developed economy.

That India is yet in a stage of under-development is evident from the fact that it exhibits all the characteristics of an under-developed economy. India is predominantly an agricultural country, more than two-thirds of its people are engaged in agriculture. Non-agricultural occupations have yet to develop to absorb its growing population. The pressure of population on land is tremendous. Agriculture contributes nearly 50% to the total national income. But productivity per acre is very low.

The industrial development in India has been very slow and uneven. Hardly 10% of the total population is yet engaged in industry in spite of the fact that industrialisation started more than 100 years back. Our industry is still confined largely to the production of consumer goods like textiles, sugar, etc. The capital goods industries have still to be developed.

There is a big deficiency of capital. For several reasons the rate of capital formation is very low. That is why we have to depend to a very considerable extent on foreign capital. Still the physical equipment per worker is very inefficient and inadequate. That is why industries carried on here are largely labour-intensive. Shortage of capital is evident from the high rate of interest prevailing in the country.

India is still largely an exporter of raw materials and importer of manufactured goods, both machinery and consumer goods. Till recently, foreign capitalist and entrepreneur held a strong foothold in the Indian economy and dominated several of its important sectors.

Indian population is growing at an alarming rate with birth rate of about 40 per thousand. During the last decade the increase was 21.50% which is terrific indeed. In some parts of India density per square mile exceeds 1,000 as in West Bengal and Kerala. There is a large amount of disguised unemployment in the rural sector.

The natural resources of India remain still largely under-developed. Vast Indian forest and mineral wealth remains unexplored. India has not been able to develop more than 5% of her water power potential.

India lacks efficient and clean administration. Our social structure is not conducive to economic development. The prevalence of caste system, joint family system, peculiar laws of inheritance and dominance of religion all have stood in the way of adopting national attention on economic matters.

Thus India has all the common characteristics of under-developed economies. Its per capita income is very low. The masses of India are economically very backward, being illiterate, subject to ill-health and condemned to a state of semi-starvation.

Poverty is writ large on their faces and their level of living is unspeakably low.

What is the explanation? Does India lack the ingredients of development or have the obstructing forces been so strong as to nullify the factors of development?

As for natural resources, we have to admit that India is not altogether devoid of gifts of nature of economic significance. Some people even believe that nature has been quite generous to India. The Himalayas and the other mountain ranges are rich in mineral resources and have immense potentialities. We have a vast forest wealth covering our high hills. The rivers coming down from the snow-capped mountains have immense irrigation and power potential. The Indo-Gangetic plain, a vast stretch of level land, is a perennial source of rich and varied crops. India's geographical location is ideal. Her continental dimensions hold out a big promise. India is usually described as a rich country inhabited by poor people. On the score of natural resources, therefore, we might say that India is a land of promise. It enjoyed economic prosperity in the ancient period of its history. But the natural resources have not been properly and sufficiently exploited. We have used barely 5% of our water power potential. The river waters have been utilised to the extent of 6.5% up to 1951. Th vast forest wealth lies unutilised owing to inaccessibility and the mineral wealth is still unexplored.

What is the position regarding labour or the human factor? India has a huge population of nearly 44 crores and it is growing at a very rapid rate This has proved to be a disturbing factor. A large population can provide a vast potential market. But a poor population is a liability rather than an asset. The growing Indian population has clearly proved a liability for it has outrun the available resources and has failed to create wealth commensurate with population growth. In the beginning of the present century the increase was negligible. For instance in thirty years from 1891 to 1921 the population increased by 12 million only representing an average annual growth of one-seventh of one per cent. But in the next 30 years (1921-1951), it increased by 110 millions, an average increase of 1.47 per cent each year. This is an alarming increase indeed. During the decade 1931-1941, area under foodgrains increased by 1.5%, whereas the population by 15%. Thus population had left the food supply far behind. Hence from the point of view of economic development the rate of population growth has been very unsatisfactory. It has not been commensurate with resources. When the population increased slowly, the opportunities for gainful employment were fewer and when there was expansion of these opportunities on account of extension of irrigation facilities, means of transport, some development of trade and industry, etc., population also increased rapidly so that the per capita income remained constant at the subsistence level.

The position has been even more unsatisfactory as regards

capital formation. When people are living at the subsistence level it is idle to think of savings and investment. The net domestic capital formation was 5.2% in 1948 and it has remained about 6-7% since then. The rate of savings is about 8% of the national income. This is certainty not a rate of savings which can make any significant contribution to economic growth. Capital formation is of crucial importance in the process of economic development and this is what India lacks the most.

As for availability of skilled personnel, the picture is quite gloomy. India can supply at the most unskilled and some skilled labour. For higher skills, it has to depend upon foreign countries. Economic development is a highly mechanised process and it requires a large number of technically trained people. Foreign skilled labour is very expensive and it raises the cost of the development projects. This is one major bottleneck in Indian economic development.

The position is not happy as regards entreprencurship. A few families formed themselves into managing agencies and monopolised all commercial and industrial enterprises. With their limited resources they could not be expected to usher in an economic revolution. They were more interested in commerce than in schemes of industrial development. India has also lacked competent managers. With able entrepreneurs missing and competent managers almost non-existent, India could not be expected to register any rapid economic progress.

With meagre facilities for general and scientific education, no invention or innovations could be expected. Thus in the matter of technological progress, India does not figure anywhere. Economic progress is very closely tied with technological progress. It is not surprising, therefore, that India has remained economically backward in the absence of advance of technology.

The conclusion is inescapable that in India almost all economic factors that determine economic growth have been missing nor have the non-economic factors been favourable. Politically, India remained under foreign rule and the foreign rulers could not be expected to take any genuine and effective interest in economic development. Whatever they did, they were naturally motivated by the interest of their own country. Even when India has become free and has its own government, the conditions have not improved. Favouritism, nepotism and corruption are rampant all over the country. Development requires an efficient and clean administration. Besides, the government is overwhelmed with the immensity of the task.

. Indian social structure is also highly unfavourable for economic growth. The caste system restricts the mobility of labour, the joint family system makes savings impossible, the law of inheritance has caused minute sub-division and fragmentation of holdings and religion has advocated asceticism, renunciation, leading the people away from material advance. The diversity

of castes and creed has prevented united action on the economic front.

India, A Static Economy up to 1950

In view of all this, it is not surprising that Indian Economy had remained static up to 1950 both agriculturally and industrially.

"At the initiation of Indian development programmes, the Indian economy was not in a state of low level equilibrium, where resources were being fully used, given the state of technology, and where fixed investment in different sectors was yielding equal or comparable marginal products. Rather the economy was in what might be called a stationary state of disequilibrium."[1] There was excess capacity in several industries, irrigation facilities remained unutilised and there was a large number of unemployed or under-employed people, in the railway, rolling stock was also not fully used. In this situation, currently available resources, if fully used, could yield larger output and national income. In spite of the fact that 100 years back several industries had been started, integrated iron and steel industry had been established, roads and rails had crossed the sub-continent, indigenous entrepreneurship had grown, financial instruments had been created, yet India was as industrially backward in 1951 as in the first decade of the century. Indian economy is still dominated by agriculture. Taking the price changes into consideration, we might say that the level of real per capita income had been the same in 1931-32 and 1950-51. Per capita income of Rs. 20 in 1868, or Rs. 27 in 1882 may not be much different from Rs. 65 in 1931-32 and Rs. 265 in 1950-51 It is estimated that since the increase in population was greater than the increase in total output, there was a decline in per capita income which may have been above 10% between 1930-31 and 1948-49.

Considering the rural sector, we find that the cultivated land per head declined from 1.09 acres in 1891 to 0.84 acres in 1951. But this decline was not compensated by any significant increase in per acre yield so that output per capita declined. There was no decline in the rates of workers dependent upon agriculture which would have shown economic progress. Up to 1941, the rural-urban rates of population remained what it was in the beginning of the century. The yield per acre remained low. For decennial periods (1893-1896—100), the per capita production ratio over the period 1916-1926 was 98 and for 1936-46 it was 80. The index of total agricultural output was 6% lower in the years 1946-1951 than in 1934-1939. It is a clear evidence of a deteriorating rural economy. The large mass of the agriculturists were so conservative that they were altogether immune to "demonstration effect". The modern and scientific methods used in planta-

1. Malenbaum, W.: *Prospects for Indian Development*, 1962, p. 31.

tion did not evoke any emulation by the peasants around. In crop competitions, rice yields per acre between 3,000 and 9,000 lbs. were obtained but the average yield continued to be 400-1,200 lbs. Thus the average farmer was impervious to change. Instead of urbanisation, which is taken as a sign of economic progress, there was progressive ruralisation. The ratio of people dependent on agriculture to total working force rose from 61% in 1881, 71% in 1911 and since then it has remained stationary. In U.S.A., this ratio declined from 64% in 1850 to less than 10% 100 years later. This shows that India was going in a direction opposite to economic progress.

This rural stagnation, or perhaps slow deterioration, cannot be attributed altogether to unfavourable political environment. In contrast to earlier rulers, the British rule gave India political stability and took great interest in agriculture, at any rate in export crops needed as raw materials for British industry. Perhaps the uncertainties of land tenure and the possibilities of large state levies discouraged agricultural improvements. Peasants confined themselves to subsistence farming. The extension of means of transport and the expansion of markets contributed to commercialisation of agriculture and stimulated output, but no agricultural improvement on a broad front was noticeable. The introduction of landlordism by the British took away the incentive for investment and hardwork on the part of the cultivator. The holdings were small and the cultivators lacked capital. Thus we find inefficient methods of production being applied to uneconomic units of operation. The emergence of marketing intermediaries had a further depressing affect. Since money-lending was more remunerative neither the landlords nor the money-lenders invested in agricultural improvements.

The existing social order was also not conducive to economic development. The Indian village society is "traditional peasant society...(where) inter-personal relations are...subject to mutual accommodation and adjustment according to the concensus of the village elders...vertical mobility (is) very limited...(and) the vast majority (of individuals) view themselves as performing a given activity and function in life...(where) their status and the circumstances impinged on them. Relationships among people in such society are governed by bonds of family and caste more than by some objective interdependence—even that of personal preference, to say nothing of functional interdependence."[1] Obviously such a society makes for stagnation rather than economic progress. Even now remote villages in India behave economically and socially as they did 50 years back. In these conditions significant changes in the economic sphere cannot be successfully initiated. New economic forces cannot pierce this thick screen of social structure and institutions. New policies and tools of economic growth cannot be expected to yield quick results. The social set up must change to make way for rapid economic

1. Malenbaum, W.: *Prospects for Indian Development*, 1962, pp. 133-134.

growth. In the words of the Planning Commission, "progress in village India is in the last analysis a human problem...of changing the outlook of 70 million families living in the countryside, arousing in them enthusiasm for new knowledge and filling them with the ambition and will to live and work for a better life". As in other under-developed countries, a large portion (40-50%) of the produce is consumed within the family and does not reach the market and relatively few families, less than 15%, conduct their business in the form of money. Barter deals do not facilitate economic progress. The level of monetisation affects the investment behaviour of the rural families and thus determines economic development.

On the industrial front too the Indian economy has been static. The ratio of urban population, which is an index of industrialisation, was 8.7% in 1872, it may have been at least between 9 and 10% in 1800, and was probably at the same level in 1901.[1] The Indian handicrafts were declining rapidly in the nineteenth century owing to various adverse factors. Modern industrial enterprise started in the middle of the 19th century but was unable to fill up the gap created by the decay of old Indian industries. It could not absorb the displaced handicraftsmen. Although industrial production started going up especially during and after the first world war but the rate of growth was disappointingly small. Even as late as 1945-1950 the overall index of industrial production showed an increase of only about 5%. Factory employment in 1950 accounted for only about 3% of the total working force. Unemployment, open as well as disguised, was mounting. There was lack of diversification in industrial growth: textiles continued to dominate. The machine tool industry was non-existent and the country almost entirely depended on imports for machinery and for most chemicals. These are a few indicators of industrial stagnation. "The record of 1850-1950 is clear. While other countries were undergoing reasonably steady industrial expansion and diversification from the beginnings of modern industry in the early and mid-1800's. India had a beginning and ending, for not until a century later, with the coming of independence did India again move toward an active broadening of industrial base."[2] This industrial stagnation was largely due to the fact that India was a colony of an industrially advanced nation and lacked entrepreneurial talent and financial facilities. There was no organised capital market. Direct financing by the saver occupied a very important place. There was a complete absence of financial institutions to help transfer of savings to industrial investment. Even today eight Marwari families...hold 565 directorships in Indian industry, banking and insurance.[3] These handicaps explain why industrial effort was not sufficient to accomplish a transition to modern industrialisation.

1. Malenbaum, W.: *Prospects for Indian Development*, 1962, p. 150.
2. *Ibid.*, p. 154.
3. *Ibid.*, p. 156.

We may conclude in Malenbaum's words: "a century without overall progress, with a growing rural and agricultural imbalance in the population, makes the shift to new ways of life difficult. Low horizons of the mass of the people become fixed; there is an inevitability about poverty and perversity. Cultural and religious traits which stress the inability of man to influence his life are strengthened. The task of changing the behaviour pattern and the outlook of the mass of the people is much greater than it would have been if begun a century back."

The Indian economy has been affected in its growth largely by political and social factors. India has suffered from all the ills of an alien rule. Naturally the British rulers could not be expected to take genuine interests in India's economic growth on sound and healthy lines. Owing to political subordination, India had the better experience of following policies not in the economic interests of India but of Great Britain. Every effort was made by the British rulers to make the Indian economy complementary to the British economy which largely meant that the Indian economy must be shaped as to provide raw materials for the British industry and an expanding market for the British manufacturers. It was a story not merely of an arrested economic development but of a deteriorating economic situation and semi-stagnant conditions. Conspicuous consumption and economic inequalities dominated the economic horizon. Vast majority of the people were in a state of poverty that knew no parallel in the world. The rates of savings and investment and the development of transport and communications, trade and industry were too low to absorb the growing population. Indian economy, in short, was in a state of under-development.

Economy on the Move

We have stated above that whether we look at the Indian economy from the agricultural or the industrial angle, the century 1850-1950 was a period of stagnation. But it is not to be supposed that the Indian economy is still stagnant. The caravan of Indian economy has after all started marching after a slumber of centuries. The pace of economic development has quickened since 1950 when we launched our five-year development plans. The First Plan presented a co-ordinated view of the requirements of the economy and of the resources available, and laid the foundations of orderly economic development. Over the plan period national income increased by about 17.5%. The net output of agriculture and ancillary fields showed an increase of 14.7%, of mining, manufacture and small enterprises an increase of 18.2%, of commerce, transport and communications 18.6% and in other services 23.7%. But the First Plan was only an initial step on the road to economic development. Over a decade of economic planning (1950-51 to 1960-61), Indian economy registered a significant advance and there was quite a rapid expansion of the various sectors of the Indian economy. The First Plan built up

the basis for more rapid economic advance in the future. It also initiated some of the basic policies relating to social change and institutional reforms. The Second Plan carried these basic policies further and aimed at large increase in production, investment and employment. As a result of these efforts there was substantial increase in the rate of investment.

The Indian economy should now be better described as a developing economy than an under-developed economy. "Under the wings of a change a land of 380 million people, one-sixth of humanity, is waking up, stretching limbs stiffened with the slumber of centuries. In one sweep, India is undergoing all the revolutions which have taken two centuries in the rest of the world. Equality and political rights, industrialisation and urbanisation; agrarian reforms and agricultural improvements; science and technology; social and personal emancipation are combining to transform a contented, static, rural, ritualistic society into a new and dynamic one where privilege is no longer inherited, where women are men's equals, and where Harijans are as important as Brahmans".[1] This is an apt description of India of today although the conditions in the remote villages do not completely tally with this description.

Let us now briefly notice the various facts of this economic change. In the cities, the change can be noticed in mechanisation of transport, the rise of new commercial and industrial establishments and in the rural areas in the working of the national extension service and the community development projects. The output in key industries is improving and is being increasingly diversified. Above all India has the feel of a nation in the process of change.

There is no doubt that a change is noticeable in all sectors of the economy but the change must be of a sufficient magnitude to constitute development and there should be a promise of a still greater change in the years to come. Generally speaking the change in national income must be greater than that of population. The social, cultural and economic changes must carry an assurance that the rate of new investment, especially new investment from domestic savings, must exceed the rate of population growth. Only then we can say that India is earnestly marching on the road to economic development.

The First Plan target of the growth of national income was more than fulfilled in as much as the rise in national income was 18% as against a target of 11-12%. But this progress was not sustained, rather the development appears to have decelerated. The average annual growth during the Second Plan was somewhat less than 4% against 5% anticipated in the Plan. The years 1961-62 and 1962-63, with nearly 2% increase, were even more depressing.

This does not mean, however, that advance in all sectors was

1. Jaya Zunken in '*India Change*' quoted by Malenbaum, p. 208.

so painfully slow. It is the agricultural sector which has been letting us down. The growth was more pronounced in trade and service sectors than in the agricultural and industrial sectors. The tertiary sectors have continued to grow in relative importance than the primary sector. In 1960, the services contributed a larger percentage (37.4%) to national product than in 1950-51 and in 1931-32. The conclusion seems to be that Indian economy seems to have a sector growth pattern of the pre-plan period.

The investment behaviour of the economy also does not show any significant difference with the pre-plan period. Average domestic investment for 1951-56 was 33% more than that of 1950-51 as against the plan target of 85%. Instead of nearly doubling, the actual increase in the average level of public investment was less than 60%. The private sector behaved better. The large enterprises in the private sector had at least as many resources available in the first three years of the Second Plan as were visualised for the whole plan period, whereas the public sector experienced great difficulty in attracting real domestic resources. Public loans and small savings schemes yielded less than the targets fixed. Deficit financing and foreign aid provided the resources for almost 75% of the actual investment in the public sector.

When we look to the employment situation also, the picture is not a pleasing one. During the First Plan, unemployment increased by 3-4 million. At the end of the Second Plan also the situation was less favourable than in the beginning. In 1961 open unemployment amounted to 7-8 million as compared with 3 million in 1950. The prospect for the Third Plan is that there will be an increase in unemployment.

There is thus clearly a gap between the plan and its performance. Let us consider this performance in the two major sectors: agriculture and industry.

As for development of the agricultural sector, we may mention that foodgrains output exceeded the target fixed for the first plan by a good margin. Although the second plan fulfilled the original target of food production (75 million tons) fixed for it, the overall performance of this sector has been disappointing. Implementation has sadly lagged behind the brave statements and bold policies of the government. Although between 1950-51 and 1960-61 foodgrains output increased by 40%, there were considerable variations from year to year. Even the maintenance of higher average rate of increase will not meet the requirements of the country. It was expected that during the decade (1950-51 to 1960-61) area under some form of irrigation would be doubled. But in the First Plan nearly half the irrigation potential was utilised. At the beginning of 1958-59 the total irrigation potential at the headworks of large and medium scale irrigation schemes, undertaken during the first two plans, was 10.2 million acres. But the potential at the outlets was only 7.25 million acres while the actual irrigation at the end of 1957-58 was

no more than 4.9 million acres. What a colossal waste? By 1960, the number of seed farms was no more than half the number planned. The consumption of fertilisers has increased 3-4 times since 1951, but the achievement has been less than the targets. These few facts point to the conclusion that the rate of actual growth in the agricultural sector in its various aspects has been less than planned.

As for the growth of the industrial sector, we notice that the contribution of mining and manufacturing industries has been below plan expectations and that of the service-producing sector to be relatively more important. In 1950-51, mining and manufacturing contributed 16.7% to India's net national product and 16% in 1958-59. The overall rise in industrial production has been impressive: 32.6% from 1950-51 to 1955-56 and 29% from 1955-56 to 1960-61, whereas the Second Plan aimed at expansion of the general index to over 190 by 1960-61. Thus the performance differs from the plan India's industrial production is dominated by private sector (90%) and by the output of consumer and light industry products (75%). The shift of the Indian industry from its predominantly private and market orientation has been slow.

In order to accelerate development, what is required is a new course of action rather than mere continuation of the past efforts on a bigger scale. In agriculture the task must be assigned to a dynamic extension service appropriately organised, adequately staffed and motivated to agricultural development with single-minded devotion For the small industry a new orientation for present programmes is called for. For modern industry too implementation should be made more effective and full facilities provided for expansion cutting the red tape.

Why a Lag between Plan and Performance?

There are several reasons why the Indian economy has not achieved the desired rate of development and why the actual performance of the economy has lagged behind what was planned.

The most important explanation seems to be the savings-investment behaviour. A very large proportion of the people's income is absorbed in consumption leaving a very small margin, if any, for savings. The consumption needs are so pressing that any increase in income is used for increase in consumption. The marginal propensity to consume is very high and the marginal propensity to save is consequently very low. A poor country cannot spare 10% of its national income, a minimum required for development for investment in development programmes. Economic growth demands that the savings flows should be diverted into investment channels. "Mechanisms must be provided to assure that savings flow into those end-uses where investment will best serve the cause of expansion. This can be done by limiting the free use of private savings, through government borrowing, taxation, etc. In India since 1951-52, 35% of the growth in real

income has been saved, though there are year to year fluctuations (e.g., above 50% in 1951-52 and less than 5% in a few recent years). The bulk of the savings in India arise in the household sector. According to Reserve Bank estimates over the period 1950-51 through 1957-58, some 75% of its estimated household savings went into the creation of physical assets, i.e., directly invested by the saver in his own business. The big corporations also do lot of direct investment. Thus the bulk (nearly 80%) of India's savings remain where they originate. That explains the paucity of savings required for investment programmes. The marginal flow of savings to public investment remained well below the average during the Second Plan period. The ratio of public to total investment was to increase from 50% in 1950-51 to 61.3% for 1956-61 and it actually reached to 60%, but expressed in 1952-53 prices, real investment is found to be lower by more than 10% than planned. Hence savings and investments lagged behind what was planned. We have also to consider how effective was the investment. It depends on the capital-output ratio.

Mass unemployment (7-8 millions) that exists in India also indicates that we are not making full use of our labour force for economic development. To this open unemployment we might add disguised unemployment. What is worse is that unemployment is growing every year and no reduction in the backlog of unemployment is foreseen until after 1966. The Planning Commission considers that unemployment is 'a problem structurally rooted in the economy', and thus evades it.

The main explanation of the lag between the plan and its performance is that sufficient attention has not been given to the fundamental characteristics of Indian economic life—consumption behaviour, domination of self-employed businessman, direct investment, relation between public and private enterprise in a mixed economy. These built-in forces of the Indian economy seriously limit the government's ability to determine the pattern of investment in level of additional national output. It is said that the results achieved could not be different. Plans should be so formulated as to be realistic with respect to specific relationship of the economy and its basic characteristics. One cannot help agreeing with the following conclusion:

"Government programmes appear to be less geared to the realities of the Indian scene than one would hope. The first two plans in any event were built upon assumptions which seem only partially relevant to the existing society and economy. In view of the relationship that seems to be characteristic of Indian economic life—between private and public activities, between small and large enterprises, between rural and urban sectors—the course of developments in India's economy over the past decade is essentially what might be expected. The savings behaviour characterised above, the propensity for direct investment, the incentive patterns. the employment possibilities—all are consistent with the levels of investment attained and the actual investment allocations between public and private sectors and into industrial categories, w... the

scale of employment achieved, and with the level of sectoral and total output attained".[1]

In order therefore to accelerate economic development and achieve better results, these basic characteristics of Indian economy must be carefully borne in mind. The plans should either be in keeping with them, or if they have to be different, determined efforts must be made to alter these characteristics and control these traditional forces. It is necessary to evolve an effective control machinery through which it may be able to function more intimately with independent (household) entrepreneurial units which play so vital a role in consumption, production, savings and investment decisions. Unless these behaviour patterns are borne in mind and are provided for, the development cannot be as rapid as desired.

We have tried to give above a glimpse into the Indian economy and the process of its development. We shall now examine in subsequent chapters the problems relating to the various aspects of the economy. In the end we shall discuss some problems of development and planning.

1. Malenbaum, W.: *Prospects for Indian Development*, 1962, p. 258.

CHAPTER II

Natural Resources

The Geographical Background

The first thing that strikes one is the vastness of the size of the country and its continental dimensions. It covers an area of 12,61,597 sq. miles.[1] It is thirteen times that of Great Britain and eight times that of Japan. But it is one-third of U.S.A. and one-seventh of U.S.S.R. It is the home of nearly one-sixth of human race. It is the seventh largest country in the world.

It measures about 2,000 miles from north to south and about 1,850 miles from east to west. It has a land frontier of 9,425 miles long and a coast-line of about 3,535 miles. Occupying a central position in the Eastern Hemisphere and being equally distant from the east and the west, she enjoys an exceptionally favourable location for trading purposes.

The mainland comprises these well-defined regions: (1) The great mountain zone of the Himalayas extending over a distance of 1,500 miles with a varying depth of 150-200 miles having some of the highest peaks in the world and interspersed with large plateaus and fertile valleys of great scenic beauty; (2) Indo-Gangetic plain 1,500 miles long and 150-200 miles broad formed by the basins of three distinct river systems, the Indus, the Ganga and the Brahmaputra, being one of the world's greatest stretches of flat alluvial soil and also one of the most densely populated areas on earth, and (3) the Peninsular plateau flanked by Eastern Ghats with an average elevation of about 2,000 ft. and the Western Ghats 3,000-4,000 ft.

India has, as a whole, a tropical monsoon type of climate. It can be divided into a number of climatic regions. It has a cool climate in the hills and the extreme north but hot and dry on the plains. It shows a wide range of temperatures varying from 50°F to 116°F and even above in places like Bhatinda in the Punjab.

1. *India* 1964, p. 1.

The climate is hot and moist in the south-west with temperature more or less uniform. But in some parts even the daily ranges in temperature, humidity and pressure are quite striking. All the same India has a climatic unity.

The annual rainfall in India as a whole is 42″. But there are considerable variations from 10″ in Hissar (Punjab) to 460″ in Cherrapunji. There are regions of very heavy rainfall like Assam, Bengal and the Western Ghats; there are regions of precarious rainfall as in the Punjab and Bombay; and then there are the regions of deficient rainfall or drought as in some southern parts of Punjab and Rajasthan. Most of our rain water comes in torrents and is washed down and wasted. It leads to soil erosion and floods with all their disastrous consequences.

The Indian soils can be broadly divided into three classes: (1) The alluvial soil covering the Indo-Gangetic Plain, the coastal strips of Eastern and Western Ghats and the Surma Valley in Assam. This soil is highly suitable for growing a large variety of crops; (2) The Deccan Trap soil covering the whole of the Deccan in Bombay, Madhya Pradesh and Berar and Hyderabad portions of Andhra Pradesh; and (3) The Crystalline soil covering Madras, South-East Bombay, Orissa, portions of Madhya Pradesh and Andhra Pradesh particularly Hyderabad and some districts of Bengal and U.P. There are desert soils in Rajasthan and South Punjab and also alkaline soils in the Punjab. Indian soil being dry, the major problem is of irrigation as distinguished from the reclamation of the wet lands in the west.

Effect of Geography on Indian Economy

"A country is said to make its inhabitants." Economic activities of a people are vitally affected by the natural forces operating in their country. The climate affects the efficiency of labour and determines the extent of the market for certain goods connected with food and clothing; and, together with rainfall and the nature of the soil, it decides what crops can be cultivated. The physical features and the river systems are the outcome of the peculiar geological structure of a country. All these together determine the volume and the course of trade and industry which, in their turn, affect the government finances and the governmental activity. Thus all economic and political phenomena are ultimately the outcome of the natural environment.

But man may conquer nature. He has spanned the seas and cut the mountains; he has conquered the air; he can travel under water; distance has been annihilated by the fast means of locomotion. By means of electricity, man has turned night into day and toned down the rigours of climate. Through irrigation schemes, he has tried to secure his independence from nature in the matter of rain. But this mastery of man over nature is not, however, complete and unquestioned. We have been able to conquer nature only partially, and nature's influence on economic activity cannot be altogether ignored and completely eliminated.

On the Indian economic life, nature's influence has been dominant. The Himalayas affect rainfall which, in its turn, governs agricultural operations throughout the country. The nature of the coast-line and of the land frontier has influenced the direction and the volume of trade. Configuration and geological structure cause the mineral wealth of the country to be what it is, and they are also responsible for the power resources available to the country. We owe it to our climate that we can grow such a large variety of crops and lay the foundation of many a prosperous industry. The working capacity of Indian labour, our economic needs and the location of industries are the outcome of our climate. The Indian budget is said to be "a gamble in monsoons."

Take the case of fuel and power. Coal mines in India are located in one corner of the country. The cost of transporting it to some remote parts of the country like the Western India and the South is prohibitive. The result is that these parts are seriously handicapped in the matter of industrial development. If any development has taken place it is in spite of this handicap. Similarly it is due to natural factor that there are excellent sites for the generation of hydro-electricity. There are two clearly marked zones: water zone and coal zone.

India is a country of long distances and hence means of transport have a special importance. But certain parts are traversed by numerous rivers and rivulets which necessitate building of so many bridges and thus add to the cost of road construction. Also, the mountainous terrain makes some parts totally inaccessible. That is why some parts remain unexplored and unexploited.

Thus Indian agriculture, trade and industry, finances and what not, are all influenced by the natural environments of the country. Really, it is difficult to think of any aspect of Indian economic life which is not directly or indirectly influenced by the natural factor.

Dr. Vera Anstey has thus summed by the economic influence of geographical factors: "Due to the diversity of Indian climate India possesses a great variety of animal, vegetable and mineral products, ranging from the heavily-coated Kashmir hill sheep to the camel of Rajasthan and the elephant and tiger of Bengal; from the wheat, fruit and fig trees of the North to the rice and cocoanuts of the hot low-lying swamps of coastal regions; and from the coal and iron fields of Bengal, Bihar and Orissa to the gold of Mysore, and salt ranges of the Punjab."

Forest Resources

India has got a very valuable asset in her vast and varied forest wealth. The total area under forests in the Indian Union is 2.69 lakh sq. miles which represents 22 per cent of the total area of the country. It is considered that in a tropical climate one-third of the total area should be under forests so that suitable climatic conditions may be maintained. Thus the forest area

of India is below the required standard. The per capita forest area in India works out at only 0.2 hectares, whereas it is 1.8 hectares in U.S.A. and 3.2 hectares in U.S.S.R.

The deficiency in the Indian forests lies not merely in the low percentage area, but also in that the timber value of the areas classed as forests falls far short of their potential. A considerable portion of the Indian forests is such only in name and is subject to various forms of maltreatment. Of the total forest area, 55.3% is merchantable and 44.7% unprofitable.

The percentage of forest area differs in different States. In the majority of the States, the forest area is inadequate to meet the requirements of the people. The inadequacy of forests causes fuel shortage and leads to the burning of cow-dung which is almost a sin from the agricultural point of view. The forest area is dangerously low in large areas of Punjab, Gujarat, Orissa, Rajasthan, and U.P., being nearly 10% or even less. Only in Madhya Pradesh, Kerala and Assam, with one-third area nearly, can the forest area be regarded fairly adequate. The National Forest Policy Resolution of 1952 proposed that the area under forests should be raised steadily to 33.3% of the total area, 60% in the hilly regions and 20% in the plains.

The most advanced countries in the world are those which have the highest per capita consumption of wood. India's per capita consumption of round wood is 1.4 c. ft. as compared with 58 c. ft. in the U.S.A. The consumption of pulp products is 1.6 lbs. as against 78 lbs. in the U.K.

Utility of Forests

Indian forests are a great national asset. Forests have important protective as well as productive functions. They are Nature's insurance against floods. By preserving moisture, they lessen the severity of drought. They also regulate the air currents. They add to the beauty of the countryside and improve the sanitary conditions. Their influence on climate is very wholesome. They supply a number of industrial materials.

In the words of the Planning Commission, "The forests of India are the source of many kinds of timber with varied technical properties, which subserve the requirements of the building industry, of defence and communications as well as of an expanding range of industries in which wood forms the principal raw material. Forests are also the source of urban firewood and of small timber required by rural communities. They provide grazing, hay and fodder. Apart from these direct benefits, forests perform a vital function in protecting the soil on sloping lands from accelerated erosion by water and on flat lands from dessication and wind erosion. In the catchments of the rivers, they serve to moderate floods and to maintain stream flow...Properly disposed shelter belts and wind belts serve to increase agricultural yields to a marked extent. Finally, forests are the home of our rich

and varied wild life. Their destruction directly spells the destruction of wild life."

The forest produce is usually divided into two categories: (i) major products, and (ii) minor products. The major products are timber and firewood. The annual outturn of timber and fuel from all sources averages about 3,000 million cubic ft. The timber is largely used for building purposes, in the construction of railway carriages, for sleepers, for making furniture, in the making of agricultural implements, etc.

Among the minor products are included lac, resin, turpentine, essential oils, tanning materials, bamboos, cane grasses, and herbs. The Indian paper industry uses bamboos, ulla and sabai grass for making different kinds of paper. A large quantity of timber is used for making splinters and boxes for the match industry. Lac is another forest product of which India has practically a monopoly. Shellac, manufactured from lac, is utilized in the making of gramophone records, varnish, and insulators. Resin, which is obtained from pine trees, is manufactured into resin and turpentine oil. Resin is used in paper making and soap making, and turpentine oil for varnish and medicinal purposes. Large quantities of tanning material are also obtained from the forests. Bamboos are the principal raw material for the Indian paper industry.

It is, however, a pity that only a part of our vast forest wealth has so far been put to economic uses. Most of our forests are inaccessible. Lack of cheap transport is the chief obstacle in the way of economic exploitation of our forest wealth. The Forest Research Institute at Dehra Dun is doing valuable work in discovering new uses for our forest wealth.

Forest Policy

It is recognised that forests have a vital role to play in the welfare and development of a country. For a long time reckless destruction of Indian forests continued. It "deprived the peasantry of wood for fuel and for building cottages, exposed agriculture to greater risks of drought, flood and soil erosion, and, on the whole, resulted in sterilization of the soil."[1] It was not realized that the preservation of forests or their scientific management was highly conducive to the economic and physical well-being of the country.

The chief concern of the Government in the past was to increase the revenue. A more positive policy was needed. Besides providing for stability in forest finance and uniformity of administration, the right forest policy must provide for—

(1) the supply of forest produce to the mass of the local consumers;

1. Nanavati and Anjaria: *The Indian Rural Problem*, p. 16.

(2) the protection of land from erosion, floods and unfavourable climatic influences;

(3) the preservation of timber for building construction generally; and

(4) the production of raw materials, both timber and other forest product, for industries using wood.

The main principles governing the management of forest resources and their continued development were laid down by the Forest Policy Resolution, 1952. The Resolution stressed the need for—

(1) evolving a system of balanced and complementary land use, under which each type of land is allotted to that form of use under which it would produce most and deteriorate least;

(2) checking—

(a) denudation in mountainous regions on which depends the perennial water supply of the river systems whose basins constitute the fertile core of the country;

(b) the erosion progressing apace along the treeless banks of the great rivers leading to ravine formation, and on vast stretches of undulating waste-lands depriving the adjoining fields of their fertility;

(c) the invasion of sea-sands on coastal tracts, and the shifting of sand dunes, more particularly in Rajputana deserts;

(3) establishing tree lands, wherever possible, for the amelioration of physical and climatic conditions and promoting the general well-being of the people;

(4) ensuring progressively increasing supplies of grazing, small wood for agricultural implements, and in particular, of fire-wood to release the cattle-dung for manure to step up food production;

(5) sustained supply of timber and other forest produce required for defence, communications and industry; and

(6) the realisation of the maximum annual revenue in perpetuity consistent with the fulfilment of the needs enumerated above.

The Planning Commission observe that "a stage has been reached where forestry should no longer be regarded as a handmaid of agriculture but as a necessary complement to it." Forest policy has to be directed, on the one hand, to securing the long range development of forest resources, and, on the other, to meeting the increased demands for timber in the immediate future

In the First Five-Year Plan, a sum of Rs. 9.5 crores was spent

on development of forests. The State Governments carried out a number of schemes, relating to afforestation, development of forest communications, strengthening of forest administration and formation of village and small-scale plantations. Though considerable progress was made yet the achievement is far behind the proportion of 33% recommended in Government's resolution on forest policy.

A sum of Rs. 19.3 crores was spent during the Second Five-Year Plan. Besides continuing, wherever necessary, work on the schemes initiated during the First Five-Year Plan, the programme of Second Plan included, inter alia, afforestation and improvement of poorer areas in the forests and extension of forestry; formation of plantations of species of commercial and industrial value; promotion of methods for increased production; conservation of wild life; increased tempo of forest research; and increased provision of technical personnel.

In the Third Five-Year Plan, still greater emphasis has been placed on forest development. The main objects of forest policy in this Plan are to secure the long range development of forest resources and also to increase output through improved techniques for timber extraction, the development of forest communications and the increased use of preservation and seasoning processes. A sum of Rs. 51 crores has been provided for the purpose.

Mineral Resources

A wrong impression seems to prevail among our people about our mineral resources. Some people seem to have an exaggerated notion of the quantity and the quality of the minerals produced here. For a country of its size and population, the mineral resources of India cannot be described as enormous. But it is not to be supposed, on the other hand, that India's mineral wealth is scanty or meagre. Even in this respect, we occupy a fairly respectable position.

We have plentiful ores of certain minerals, e.g., chromite, iron, cyanite, magnesite, manganese, mica, monazite, talc, titanium and zircon. We are more or less self-sufficient in arsenic, glass, sand-stones, barium, bauxite, beryl, clays, cobalt, dolomite, feldspars, graphite, gypsum, limestone, nitrates, phosphates, salt, strontium, tungsten, and vanadium. But we are definitely short of, or totally lacking in, asbestos, bismuth, borates, bromine, cadmium, china clay, copper, fiourite, gold, iodine, lead, mercury, molybdenite, nickel, platinum, potash, radium, silver, sulphur, tin and zinc.

A weakness of the Indian mining industry is that the mineral wealth of India has not been fully and scientifically exploited nor have the mines been worked exclusively for India's benefit. Minerals have been largely extracted for export purposes at a rate which might jeopardise India's industrial future. We have also not tried so far to discover substitutes for the minerals we lack.

The mineral output in India in 1963 was valued at about

Rs. 212 crores. The more important mining centres are in Bihar, Orissa, West Bengal, Rajasthan, Mysore and Andhra and the more extensively worked minerals are coal, mica, manganese ore, iron ore, and limestone. A brief account of the important minerals is given below.

Iron ores. A country must have an adequate supply of structural metals if it is not to be at the mercy of foreign countries. Of these iron is the most important. Some Indian iron ore deposits are considered to be the richest in the world, containing 60 per cent metal. India has the biggest iron ore mines in Asia. The iron ore reserves in India are estimated at 2,100 crore tons. The proximity of coal mines renders these deposits all the more valuable. The rich quality of the ore and the nearness of coal mines enable India to produce pig iron at a very low cost. Iron ores occur in Singhbhum, Keonjhar, Mayurbhanj, Bengal, Madhya Pradesh, Mysore and the Himalayas. The Indian Mineral Resources Bureau think that inexhaustible iron ore deposits lie in Salem and Nellore districts of Madras State. It has also been reported that the Geological Survey of India has located two large deposits of iron ore, containing an estimated reserve of nearly 389 million tons of ore in the Guntur and Nellore districts of Andhra State, which will last some centuries.

A rich tract of iron ore has also been located in the Jaisalmer area. The average annual production is 3.5 million tons nearly. But this is nearly one-tenth of that of France and one-fiftieth of that of the U.S.A. Output in 1963 was put at 14.8 million metric tons, Orissa contributing 40% and Bihar 23%.

Manganese. Manganese is a very useful material and has been called the "jack-of-all-trades." It is required for enamel, porcelain, chemicals, plastics, varnish, glazed pottery, dry batteries, and what not. But its biggest consumer is the steel industry. Because our steel industry is not yet fully developed, most of the manganese produced in India is exported.

Next to Russia and Gold Coast, India is the largest producer of manganese in the world. Reserves of ore are put at 11.2 crore tons of which 10 crore tons are in Madhya Pradesh and Bombay. In 1962-63 the production was 11.8 lakh tonnes. The Indian iron and steel industry is able to consume only about 60,000 tons in a year. Hence the bulk of products (80%) is exported. Nagpur, Balaghat, Bhandra and Chhindwara districts in the Madhya Pradesh, some parts of Bombay State, Madras State, Bihar and Orissa are the chief places of its occurrence. Madhya Pradesh has the largest and the richest deposits accounting for 60% of the annual production.

Mica. India has the largest production of mica ore in the world producing nearly 75% of the world production, but nearly the whole of it is exported. In 1963-64, the total output was 24.8 thousand tons. Mica deposits occur in Ajmer, Travancore, Mysore and Hazaribagh in Bihar producing about 80 per cent of the

total production. It also occurs in Nellore in Madras. Mica is extremely useful in the making of electrical goods, and Indian Mica is particularly suitable as an insulating material. Mica is also used in several other industries.

Bauxite. It is called the 'wonder metal' of the 20th century in view of the numerous uses to which it can be put, especially in aircraft industry. It is the source of aluminium. India possesses extensive and rich deposits of bauxite occurring in Assam, Madhya Pradesh, parts of Bombay, Madras and Bihar. Her reserves are estimated at 280 lakh tons. The production in 1963 was 5.56 lakh tons.

Chromite. India is well blessed by nature with chromite deposits. It is an important mineral used for war purposes. As we are still industrially backward, there is very little home demand for it. The Mysore State is the largest producer, other centres being Singhbhum, some parts of Maharashtra and Madras. The total reserves have been estimated at 13.2 lakh tons. The output in 1963 was 49 lakh tons. Our average annual consumption is, however, 6,495 tons.

Gypsum. Next to coal and iron, gypsum is a mineral of great importance in the industrial economy of a country. It is mainly used in cement and fertilizer industries. After the establishment of the Sindri Fertilizer Factory, gypsum has assumed much greater importance than before and its output has started rising. Its deposits occur chiefly in Rajasthan and Madras. The reserves in Rajasthan are estimated at 40 million tons and over the rest of the country 27.1 million tons. In 1963 the production of gypsum was 11.8 lakh tons.

Copper is another structural metal. It occurs in Chhota Nagpur, Singhbhum Rajasthan, Sikkim, Kulu, and Garhwal. All the deposits of copper are not workable, because some of them happen to be scattered in the form of grain. India's contribution to the world copper supply is indeed very slight. Copper mining is largely confined to the copper belt of Singhbhum (Bihar) extending for 80 miles. In 1961, the copper ore production was 4.23 lakh tons.

Gold. In small, almost insignificant, quantities, gold is widely distributed throughout India where it is obtained by washing the river sands. But the Kolar Gold-fields in Mysore are the only important source. Other fields are those of Hutti in Hyderabad (Deccan) yielding gold worth a million sterling, and Anantapur in Madras yielding three-quarters of a million sterling but these are much less productive. The total production in 1963 was about 4,296 kilograms.

Silver. Far from being a producer, India is the largest consumer of silver in the world. Only a small quantity (25,000 ozs.) is got from the Kolar fields. Her annual imports of silver are of the average of £10,000,000. The output in 1961 was 5,941 kilograms.

Lead. The lead ore deposits occur in Madras, the Himalayas, Rajasthan, and Manbhum and Hazaribagh in Bihar. But the total production of lead is almost insignificant.

Other Minerals. Besides the above minerals, India possesses deposits of several types of clay having a high degree of plasticity, which are useful for making pottery, tiles, pipes, and high-grade porcelain. India is also well endowed with cement-making materials and automatic energy minerals.

This rapid survey of the mineral position in India brings out clearly certain important facts. India is the largest producer of mica. Her iron ore is of the richest quality, and with the possible exception of Brazil, her resources in iron ore are the largest in the world. Her reserves have been assessed at one-fourth of the total estimated reserves in the world. She is the second largest producer of coal as well as of iron and steel in the Commonwealth. She ranks third in the world in her manganese deposits. Her position in some rare or strategic minerals is also strong and in regard to non-ferrous metals, useful and fairly extensive deposits, particularly of bauxite, await investigation. But it is safe to take a modest view of India's mineral resources. The position is: "Minerals of strategic importance are adequate in parts only; there is a serious deficiency in munition metals like tungsten, tin, lead, zinc, mercury, graphite and liquid fuel. But in the basic metals such as iron, manganese, aluminium, magnesium and chromium the country is well supplied; in the first three in large excess."[1]

However, from the distribution of minerals, it is quite evident that important minerals are mainly to be found in the north-eastern parts of the country. This is likely to hinder the rapid industrialization in other parts, for mineral ores, on account of their bulk, cannot be easily transported to distant regions.

Mineral Policy

So far most of the mineral ores are being exported from India in the raw form. But we should put them into manufacturing processes at home. We should now follow a rational and planned policy. In view of the emphasis on industrial development, a sound mineral policy becomes of key importance. The Planning Commission has suggested a suitable mineral policy with conservation economic working as its keynote and a policy of co-ordinated development. The essentials of this policy include—

(i) appraisal of reserves both in quality and quantity by means of detailed surveys and exploration;

(ii) efficient and scientific conduct of mining operations;

(iii) particular attention to the development of minerals of strategic importance such as tin, tungsten, sulphur, etc.;

1. *India Year Book*, 1950, p. 224.

(iv) conversion into finished and semi-finished products of minerals which are being exported at present;

(v) proper regulation of leasing of mineral properties;

(vi) collection and maintenance of up-to-date mineral statistics;

(vii) organising mineral trade; and

(viii) conducting research in mining.

The Government of India made a provision of Rs. 1 crore in the First Five-Year Plan of systematic and detailed investigation and surveys with a view to quantitative assessment of the country's reserves of important minerals. Other objectives were: (1) Improvement of mining to ensure economic working and due conservation; (2) research into the utilisation of the minerals; and (3) expansion and strengthening of the government organisations concerned with the execution of mineral development. For rapid expansion the provision was subsequently raised to Rs. 2.5 crores.

Considerable progress was made in all these directions resulting in a general increase in the volume and value of mineral production. Taking into account greater emphasis on industrial development in the Second Five-Year Plan, the Planning Commission recommended intensified programmes of mineral development including mapping, prospecting qualitative assessment of new deposits of important minerals and exploration of mineral oils. A provision of Rs. 73 crores was made for the purpose. The programme of industrial development in the Third Plan will entail an outlay of Rs. 478 crores in the public sector. A National Mineral Development Corporation was set up in November 1958 to further mineral development in the country.

Power Resources

Supply of cheap power is one of the most important requisites of industrial prosperity. India aspires to a high class industrialism. Let us see, therefore, whether she is properly equipped, from the point of view of power, for running the industrial machine.

There are several sources from which energy can be generated, namely, wood, wind, water, alcohol, oil and coal. Atomic energy and solar energy are the other sources. Wind, which is being extensively used in the Netherlands in Europe, has not been made use of here so far. Alcohol may be produced in large quantities as a by-product of sugar industry, but at present it is of little importance as an industrial fuel. Wood is a fairly important source and was put to considerable use in the past. But its chief result was the reckless destruction of forests, and the industrialists had to look elsewhere. Atomic energy and solar energy have yet to be developed. We are, therefore, left with petroleum, coal and water-power resources.

Oil and Natural Gas Commission has been set up. The total

estimated refinery capacity by the end of the Third Plan has been put at 14 million tons.

Petroleum. Among the minerals produced in India, petroleum occupies quite an important place in terms of value, viz., the fifth. But the quantity produced is utterly insufficient to meet her requirements. At the beginning of the Second Plan, the country's oil resources were still poorly developed, about 66 lakh tons out of her total annual requirement of 70 lakh tons being met from imports. Requirements at the end of the Third Plan are estimated to rise to 10 million tons. There are three important oil centres, viz., Digboi, Bappapung, and Hansapung. Oil has, however, been found in Naharkatiya and Moran.

The insufficiency of mineral oil in India can, however, be made up by the production of synthetic fuel oils from sugarcane and oil-seeds. About a quarter million tons of molasses are every year thrown away by sugar factories and this can well be utilised for the manufacture of alcohol which, when mixed with petroleum, forms an excellent fuel power for automobiles.

Strenuous efforts have been made in recent times to increase the oil resources of the country. With this end in view refineries have been set up both in the private and public sector, greater emphasis being laid on the latter.

After the establishment of Digboi in the beginning of the century no progress was made till the 50's when three refineries were set up in India in the private sector. Their total capacity was about 4 million tonnes in 1957. By early 1963, this had been raised to over 7 million tonnes. There was no refinery in the public sector till 1962 when the Nunmati refinery was built. The second and third refineries in the public sector are being built at Barauni and Koyali. The Barauni refinery, which will yield 1 million tonnes of petroleum products annually in the first instance and have a lubricating plant, went into production in August 1964. The fourth public sector refinery is being built at Cochin. There are plans for setting up two more refineries—one at Madras and the other at Haldia. When all these refineries are in full production, the total refinery capacity of the country will be about 22 million tonnes, of which about a third will be in the private sector.

Search for mineral oil in the country is being carried out vigorously from Assam in the east to Cambay in the west with the help of experts from several countries. A provision of Rs. 11.5 crores was made for oil exploration in the Second Plan and Rs. 115 crores in the Third Plan. Oil has already been struck in Cambay and at Vadser near Baroda. The oil drilling at Ankleswar (Gujarat) has been particularly successful. Oil was struck there in May 1960 and from February 15, 1962 production was stepped up from 100 to 600 tons daily. The Standard Vaccum Oil Company is carrying out drilling in West Bengal under the Indo-Stanvac Project. Geological and geophysical surveys are

being carried out in the Punjab, Kashmir, Himachal Pradesh, Rajasthan, Bombay, West Bengal, Uttar Pradesh and Assam. It is hoped that these efforts will bear fruit. It is expected that by 1966-67 India would be able to produce 7 million tons of petroleum products and meet 50% of the country's requirements.

Coal. As A. Zimmerman remarks, "In spite of the growing importance of its more spectacular rival, especially petroleum, coal remains the chief energiser of modern industry and continues to provide most of the power required to move overland the dry bulk commodities of the present-day world of commerce."[1]

Although India is the second largest coal-producing country in the Commonwealth and ninth in the whole world, yet considering the vast requirements of the country, our coal resources are extremely limited; nor are they satisfactorily located. The quality of our coal is very inferior on account of its high ash content and the presence of moisture. Also, the coal deposits are very unevenly distributed. Gondwana coal fields supply 98% of the total supplies of coal in India. This imposes a serious handicap on industrial development in distant States. The problem of coal, therefore, is not merely one of production but also of transport. For Madras the price of coal rises to three times of what it is at coal pits. This is why the Madras Government has undertaken a project, viz., Arcot Lignite Project at Neyveli, for developing lignite coal (brown coal) of which they possess ample reserves.

The coal output in India in 1963 was about 67 million tons The target for the Second Plan was 60 million tons and for the Third Plan 97 million tons. Our coal output is insignificant as compared with that in the U.S.A. which is more than 456 million tons. Our per capita consumption of coal has been put at .07 ton as against 4.75 tons in the U.S.A. This shows how backward industrially we are.

The situation, as visualized by the experts, calls for serious thought. It is, therefore, necessary to economise and devise measures to make our limited resorces of coal last as long as possible. We find, on the other hand, that we are very imprudently wasting our coal resources. Good quality coal is being used for steam-raising purposes by railways and others, whereas it should be used only for metallurgical purposes.

As measures of economy, the Planning Commission has recommended: (i) Though production of coking coal may be maintained at the present level yet under no circumstances should new fields be developed; (ii) stowing, blending and washing should be enforced by law; (iii) selective mining should be stopped effectively; (iv) a programme for replacing coking coal by other coal should be taken up; and (v) a Coal Board should be set up to conduct a comprehensive examination of all questions relating to coal.

1. Quoted by A. K. Sur in his *National Resources of India*, 1942, p. 45.

Apart from improving and mechanising the methods of coal extracting, the following steps have been taken for proper utilization of our coal resources: (i) using second grade coal for generating Thermal Electricity; (ii) manufacturing petroleum from second grade coal for which the Government of India have entered into a contract with a foreign firm; and (iii) a trade mission from Czechoslovakia have offered to supply boilers in which inferior coal can be used. These measures, it is hoped, will go a long way in economising our coal resources.

National Coal Development Corporation has been set up to assist production. It fulfilled the task of attaining a production level of 13.5 million tons a year and it is hoped to fulfil a Third Plan target of 30.5 million tons a year. The Corporation made profit of over Rs. 1 crore in 1960-61.

Now rich deposits of metallurgical coal have been found in Bokaro and Raniganj areas which will make India self-sufficient in grade 1 coal for decades to come.

Hydro-electric Resources

We have seen that the power position in India is not satisfactory either from the point of view of wood, or coal, or petroleum. The Indian forests are inaccessible, and even otherwise forests cannot last long if only wood were used as a source of power to meet the needs of modern industry. As for coal, not only is the quality of Indian coal poor but the quantity, too, is strictly limited and it is unevenly distributed. Petroleum, too, is insufficient. But if nature has been niggardly to India in coal or oil, she has been almost lavish in her gifts of hydro-electric resources.

There are immense possibilities for the development of hydro-electric energy, especially in regions distant from the coal mines. Nature seems to have marked out in India two distinct zones: the 'coal zone' and the 'water zone'. It has been estimated that the total hydro-electric potential, which it might be possible to develop from various likely sites, is about 35 million kw. Between 1950 and 1960, the generation in India has increased by 206% although it has been much higher in other industrially advanced countries. At the beginning of the First Plan, the total installed capacity of power generation plants was 2.3 million kw. and during the First Plan, it increased to 3.4 million kw. The Second Plan aimed at raising it to 6.9 million kw. and the target for the Third Plan is 11.8 million kw. The installed power capacity in the country rose to 7.5 million kw. in 1963-64 as against 6.7 million kw. in 1962-63. By the end of the Third Plan the generating capacity is expected to be of the order of 12.5 million kw. The setimated cost of the power programme in the public sector in the Third Plan is Rs. 1,039 crores.

The principal power schemes completed and brought into service during the First Plan were: Nangal (48,000 kw.), Bokaro

(150,000 kw.), Chola (54,000 kw.), Khaper Kheda (30,000 kw.), Moyar (36,000 kw.), Madras City Plant Extensions (30,000 kw.), Machkund (34,000 kw.), Pathri (13,000 kw.), Sarda (27,000 kw.), Sengulam (48,000 kw.), and Yog (72,000 kg.). In addition, considerable progress was made on a number of major products, e.g., Bhakra, Hirakud, Koyna, Chambal and Rihand.

The First Five-Year Plan made a provision of Rs. 260 crores for the development of power in the country. The total outlay in the Second Plan had been put at Rs. 410 crores. In the Third Plan (final draft), a sum of Rs. 925 crores has been allotted for power.

Hydro-electric Developments

India is one of the pioneers in the matter of hydro-electric installations. The first hydro-electric plant was installed at Darjeeling in 1897-98. Another hydro-electric project was completed in 1902 in Mysore on the river Cauvery at Sivasamudram. A brief account of old and new hydro-electric installations is given below. (Detailed account of multi-purpose Projects is given in the chapter on Irrigation.)

Maharashtra. In Maharashtra, there are three electrical installations managed by Messrs. Tata and Sons, viz., Lonavala, Andhra Valley and Nila Mula, having a combined capacity of 2½ lakh kw. They supply electricity to Bombay mills and electric trains at very low rates. To Bombay area, which is situated at a distance of 1,400 miles from coal mines, it is a priceless boon. A new project, Koyna Project, will have an underground power house with four units of 60,000 kw. each. It will supply power to Bombay, Poona and adjoining areas.

Madras. In the South, the Pykara Hydro-Electric Works (Madras) have a capacity of 90,000 H.P., in addition to 30,000 H.P. from the tail water at a lower site. It has the highest head plant in the Commonwealth. Then, there are the Mettur Hydro-electric Works which are considered to be the largest of its kind in the world. They have a capacity of 50,000 kw. The Rs. 6-crore Mettur Tunnel Scheme is expected to supply additional 1,00,000 kw. Other schemes operating in Madras are Annolley, Karteri and Munar. The Papanasam Scheme completed in 1944 has a capacity of 21,000 kw. Pallivasal Project of Travancore has also a similar capacity. Additional generating sets have been installed at both Pykora and Papanasam Works. The Kundah Hydro-electric Project, the biggest in Madras, will generate 4.2 lakh kw. It is estimated to cost Rs. 35 crores.

Mysore. In Mysore, the Mysore Hydro-electric Works on the Cauvery at Sivasamudram were the earlier works established in the whole of Asia. They generate 40,000 kw. and supply energy to Kolar gold mines and a large number of towns and villages. The Mahatma Gandhi Hydro-electric Works, formerly called Jog Power Scheme, in Mysore, were completed in 1952. About 1½

lakh kw. capacity has been installed by harnessing the waters of the Sheravati River at Jog Falls.

A new project—**Sharavati Power Project**, in Mysore, is said to be India's biggest power project. The entire project, including all units in the main power house is estimated to cost Rs. 101.5 crores. The project consists of Linganamakki dam, a three-mile power channel leading into a reservoir behind a subsidiary dam across a minor stream, and two pressure tunnels. There will be ten generating sets each capable of 100,000 kw. An additional 60,000 kw. will be generated at the Linganamakki dam. The old Mahatma Gandhi Hydro-electric station will continue in service until all the ten units in the new Sharavati power house are commissioned after which it will serve as a stand-by capacity. The first two units were expected to be commissioned in 1964, three in 1965 and three in 1966. Power hungry industries around Bangalore, Hubli and Mangalore will get more power. The Sharavati Project opens up tremendous prospects for a long neglected tract which is rich in forests and possesses big reserves of iron ore.

Punjab. In the Punjab, the Mandi Hydro-electric Works are the oldest and have a capacity of 118,000 kw. Its 15,000 feet long steel mantled tunnel is a marvellous achievement.

Bhakra Project

Among the new works, power has already been switched in from the Ganguwal and Kotla power stations on the Nangal Hydel Canal. The three power houses at Bhakra, Ganguwal and Kotla have an installed capacity of 6,04,000 kw. These are parts of the new Bhakra-Nangal Project. At the foot of the Bhakra Dam on both banks power stations have been established using the water falling from the dam. The left bank power house with an aggregate capacity of 450,000 kw. is already complete. The power development on the right bank envisages the installation of five units of 125,000 kw. each. (Full details of Bhakra Project will be given in the chapter on Irrigation.)

Beas Project

The Beas Project (detailed account given in the chapter on Irrigation) is a joint venture of the Punjab and Rajasthan Governments. There will be a power plant in Beas. Sutlej link of this project will have an installed capacity of 9.96 lakh kw. There will be a second unit with an installed capacity of 240 mw. When the Beas Project is completed, the power systems of Beas and Bhakra projects will be linked in a common grid with a total installed capacity of 2.225 million kw.

Uttar Pradesh. In Uttar Pradesh, there is the hydro-electric grid system generating power from the Ganga Canal System and supplying electricity to the principal towns in the State. Recently Sarda Hydro-electric Project (41,400 kw.), the Pathri Project

(24,000 kw.) and the Mohammadpur Hydro-electric Works (10,000 kw.), have also been brought into operation.

Rihand Project has also been completed and commissioned. Besides supplying power to the eastern and southern Uttar Pradesh, it will also supply power to Rewa and Vindhya Pradesh regions of Madhya Pradesh. It is the biggest power project undertaken by U.P. since Independence. It has five units of 50,000 kw. each. It has been decided to instal an additional plant for generating 50,000 kw. The ultimate installed capacity is expected to be 300,000 kw. The total cost of the project is estimated to be nearly Rs. 46 crores.

Kashmir. To Kashmir belongs the credit of having completed the second hydro-electric works in India. Electricity is generated at Baramulla on the river Jhelum and the plant has a total capacity of 26,000 H.P. To this has now been added Sindh Valley Hydro-electric Project. Rs. 280 lakhs have been sanctioned for Chenani Hydro-electric Project on Tawi (Jammu) which will generate 15,000 kw.

Damodar Valley Project

A joint big project of West Bengal and Bihar is the Damodar Valley Project which consists of four storage dams with hydel power house of a total capacity of 1,04,000 kw., three thermal power stations with a total capacity of 6,25,000 kw. The International Development Association has granted credits amounting to $18.5 million to finance an expansion programme of the D.V.C. It will help financing the installation of 140,000 kw. new generator. It will increase Corporation's generating capacity from 524,000 kw. to 1,084,000 kw. It is scheduled for completion by the end of 1965. With the additional credit of Rs. 8.82 crores from IDA, the total installed capacity of DVC will go up by 140,000 kw. The existing capacity is 479,000 kw. of which the Tilaiya Power Station accounts for 4,000 kw., Bokaro Thermal Power Station 2,25,000 kw., the Maithon Hydel Channel 60,000 kw., the Panchet Hydel Power Station 40,000 kw. and the Durgapur Thermal Power Station 150,000 kw. Two units will be added to the DVC system during the Third Plan raising the total generating capacity to 9.79 lakh kw. Mayurakshi Project in West Bengal; though primarily an irrigation project, will also provide for an installation of a 4,000 kw. hydro-electric plant. Besides supplying power to Birbhum and Murshidabad districts in West Bengal, it will also supply power to Santhal Parganas in Bihar. During the Third Plan, two units of 1.25 lakh kw. each are to be added to the DVC system raising the total power generating capacity to 9.79 lakh kw.

Hirakud Project

Orissa. In Orissa there are two important power projects, viz., the Hirakud Dam Project and Machkund Dam Project. The Power House at the base of the Hirakud Dam has an installed

capacity of 1,23,000 kw. in the first stage. The second stage Chiplima Power House Scheme provides for installation of three units of 24,000 kw. each and two additional units of 37,500 kw. each at the main power house at Hirakud. The power house at Chiplima was inaugurated in September 1963, marking the completion of the Second Stage of the Hirakud Project. The total installed capacity of the Hirakud system is now 270 mw. It is proposed to instal a few more units to provide additional peaking capacity.

Chambal Project is a joint project of Madhya Pradesh and Rajasthan Governments. It has a capacity of 80,000 kw. The first stage has been completed and is called Gandhi Sagar Dam. The second stage known as Rana Partap Sagar Dam will have a generating station of four units of 32,000 kw. each and a panstock for the fifth unit of a similar size. The third stage included in the Third Five-Year Plan will have three sets of 26,000 kw. with a provision of two more sets to be installed at a later stage.

There are, besides, quite a large number of other small hydro-electric works in various parts of the country.

The other projects which are in different stages are Tikarpara and Niraj (Orissa), Narmada, Tapti and Sabarmati (Bombay and Madhya Pradesh), Indravati (Bastar), Sone, and Nayar (U.P.), Dihang, Manas and Barauli (Assam), Tungabhadra (Andhra), Sindh Valley Hydro-electric Project (Kashmir), Chambal Hydro-electric Project (Madhya Pradesh and Rajasthan), Nagarjuna Sagar Project (Andhra). The total power generation on these projects may be 10 million kilowatts.

Conclusion. In spite of her immense water-power resources and their strategic location India has not been able to develop more than 5 per cent of her water-power potential estimated to be 40 million kilowatts. What hampers the hydro-electric development in India is the seasonal character of her rainfall which necessitates the building of costly dams to ensure continuous flow of water.

Electricity is yet unknown to the common man in India and the supply is confined mostly to urban areas. Canada started developing her hydro-electricity three years after the first plant was set up in India. But today her installed capacity is 15 times that of ours, of the U.S.A. 29 times and that of U.S.S.R. 45 times. Even the comparatively small countries like France, Switzerland, Norway, Sweden and Japan have each a capacity 5 to 10 times the installed capacity in India. The annual per capita generation of electricity in India is only 39 kw. compared to Norway's 7,740 kw.; Canada's 5,780 kw., the U.K.'s 1,910 kwh. and Japan's 875 kw. India today uses in a year as much electrical energy as the U.S.A. generates in a week Over 42 per cent of this energy is used in the cities of Bombay and Calcutta while, if Ahmedabad and Kanpur are included, over half of India's total supply of energy is absorbed in four cities containing not more than 1½ per

cent of the population of the country. The per capita consumption of electricity is a paltry 20.7 (1956) kw. in India as against 986 in England, 2,616 kw. in the U.S.A., 2,272 kw. in Switzerland (1953), 2,884 kw. in Sweden, 5,589 kw. in Norway and 3,536 kw. in Canada.

The Government of India is now in dead earnest to convert our "water into wealth". Quite a large number of multi-purpose projects are under execution, investigation or contemplation. They will provide not only electricity but also irrigation, flood control, navigation, fish culture, recreation facilities, and new "places of pilgrimage".

Indians, A Poor People in a Rich Country

This rapid survey of India's resources is enough to show that Nature has been very generous to India, almost lavish in some respects. Her biggest gift, the Himalayas, are of incalculable economic benefit to her and have immense potentialities. The Indo-Gangetic Plain is a perennial source of rich and varied crops. The infinite variety of climate can enable us to develop a rich economic life. Our mineral resources are fairly varied and sufficiently rich. Coal may be deficient, but water-power resources are immense. We have a huge livestock and a vast human population. Geographically we are ideally situated. India seems to be thus marked out to be one of the most prosperous countries of the world.

But what is the actual position? Poverty stalks the land, a poverty for which there is no parallel in the world. It is nothing short of a paradox that we should be poor while our country is so rich. Obviously man has failed to take full advantage of the gifts of Nature.

One thing that strikes us is the criminal waste of our resources. We have already seen how our coal resources are being wasted for the sake of getting maximum profits. Dr. R. K. Dass, in his book **Industrial Efficiency of India**, made a detailed study of wastage of resources. He showed that the wastage of natural resources of India amounted to 75 per cent.

Then, there is also wastage of human resources on account of ill-health, ignorance, unemployment or under-employment, useless motherhood and premature deaths. It has been calculated that nearly 64 per cent of the total manpower is annually lost.

Wastage of capital arises from unproductive investment, from immobilization of the capital resources, and from imperfect utilization of the existing capital resources. This was estimated at 66 per cent of our total capital resources.

The total wastage of the productive factors, viz., land, labour and capital, was put at 69 per cent[1] which is more than two-thirds.

1. R. K. Das: *The Industrial Efficiency of India*, 1930.

We are, in other words, utilizing less than one-third of our productive powers. Is it any wonder that we are poor?

Causes responsible for this wastage are numerous and complex. They lie in our social, economic, and political structure. Racial characteristics, ignorance, inexperience and illiteracy all have something to do with this state of affairs.

Our political dependence prevented us from formulating policies calculated to exploit our resources on the right lines and to the full extent. The policy of laissez-faire, pursued by the State in India, considerably affected the development of our resources.

The advance influence of social conditions is only too apparent. The caste system is responsible for the vivisection of our society and, by preventing free mobility of labour, fits many round pegs in square holes. The joint-family system kills individual initiative and enterprise and breeds drones, which, in its turn, reduces the chances of accumulation of capital. The stay-at-home habits engendered and encouraged by the system are responsible for the maladjustment of supply of labour to the demand for it.

The dominance of religion makes the people fatalistic, superstitious, and conservative, and cuts across the organization of the economic interests. Religious sentiment also prohibits, in the majority of cases, the full economic utilization of our cattle resources. The most important cause has been our political subjection. Now that we are free, we shall be in a position to pursue correct economic policy. But before any tangible results can be achieved, the character of our people will have to be rehabilitated from a state in which our 150-year-old slavery had landed us. The natural resources constitute vast potential wealth of the country. If these resources are properly and adequately utilised, they can become a key factor in the process of economic growth of the country. So far these resources have been insufficiently tapped. It is an important task of the Planning Commission to utilise them effectively to accelerate economic development. This is the role that the natural resources can play in development planning.

CHAPTER III

Population

The progress of a country depends so much on the people living in it that without a proper survey of their different activities no future plans can be made. India is poor and her poverty has no parallel. The standard of living is almost the lowest in the world. A thorough and scientific study of Indian population problem is essential to suggest remedies to improve conditions. To be able to suggest correct remedies we have to answer the questions: "How many are 'we the people' of India? In what places do we live? In what manner do we obtain our means of living? At what rate have we been growing in the last few decades? What has been the effect of this growth upon our means of living? What is the inference to be drawn from the experience of the last few decades about the probable growth of our numbers and our means of living during the next few decades?"

Answers to these questions help us to make organised efforts to raise the standard of living of the people and to promote their welfare. Only a careful study of the various aspects of our population can help us to answer these questions satisfactorily. Planning without the knowledge of the size of population and its distribution will be a leap in the dark. Hence a study of population is essential to ensure a steady and stable economic progress.

Size and Density

According to post-enumeration check of the census of 1961, the population of India is put at 439,235,082. In the matter of population, India is the second largest country in the world, the first being China whose population in 1959 was estimated at 582 million. It is one-seventh of the total world population while occupying 2.4% of the world's land area. Among the Indian States, U.P. leads with 73.75 million, followed by Bihar 46.46 million, Maharashtra 39.55 million, Andhra Pradesh 35.98 million, West Bengal 34.92 million, Madras 33.60 million, Madhya Pradesh 32.37 million, Mysore 23.58 million, Gujarat 20.63 million, Punjab

20.30 million, Rajasthan 20.15 million, Orissa 17.55 million, Kerala, 16.90 million and Assam 11.87 million.

The average density of population in India according to 1961 census is 370 persons per sq. mile. but the number of persons per sq. mile varies from State to State. We find such extreme variations as 20 persons per square mile in Andaman Islands, 51 in Jammu and Kashmir and 1,032 in West Bengal; 1,127 in Kerala and Delhi with 4,640 being the highest. Rajasthan has only 153 and Punjab 430, Himachal Pradesh 124, Assam 252 and Madhya Pradesh 189. The areas of varying density really cut across the State boundaries. For instance, leaving Kerala, the region of highest density is Indus-Jumna-Ganges Doabs and the West Bengal basis. The density in this entire region seldom goes below 500 per square mile and is often above 1,000 in areas astride the rivers. The Central and Deccan plateaus are well under a density of 500 generally except places like Ahmedabad, Bombay, Baroda, Hyderabad, Bangalore, etc. The Western Desert and Low lands, the Madhya Pradesh teak and scrub forests and South-Eastern Hill and upland forests have a density of below 200.

Factors Determining Density

The following factors are responsible for these variations:—

Density is governed, in the **first** place by **climate**. **A healthy** climate attracts more people and maintains larger numbers. If climate is unfavourable as in Assam, the density will be low.

Secondly, apart from the effect of climate on health, the density of population in India, as in other countries, is mainly controlled by the **distribution** of rainfall. If rain is adequate, timely and evenly distributed, it will be conducive to the growth of cereal crops like rice. As rice is a prolific crop, it can support a high density of population. But rainfall is not the only determining factor. In the Himalayan areas of Dehra Dun, Almora and Simla, the rainfall is ample and varies between 60 and 85 inches in the year, yet the number per square mile is very low. Similarly in Assam, where the rainfall is plentiful. the density is only 252. The same is true of Jammu and Kashmir, which has a density of only 51.

The **third** important factor is, therefore, **configuration** or **surface features**. It is thus clear that the relief of land plays an important part in density of population. Regions which have a heavy rainfall but have a mountain surface covered with jungles cannot support a large population. Plains, on the other hand, are favourable for settlement and agriculture.

Fourthly, it is seen that **irrigation facilities** which stabilise agricultural conditions lead to denser population. Irrigated areas in the Punjab are much more densely populated than unirrigated districts like Hissar and Bhatinda.

Fifthly, economic development leads to dense population and the absence of it accounts for sparse population. Undoubtedly

the number of people that an area can maintain in the pastoral stage is very small. In the agricultural stage, larger numbers can be supported. And in the industrial stage, there is room for many more people. It is well-known that centres of trade and industry are usually very densely populated. The higher density in Bengal is partly due to this factor, while the lower density in the Punjab is due to the agricultural character of the State.

Sixthly, the **nature of the soil** also makes a difference. Regions of sandy soil show a lower density as compared with fertile areas. Rajasthan, for instance, is very thinly populated, while *Bengal has a much more dense population.*

Seventhly, security of life and property is partly responsible for the number of people living in an area. In border areas, the density is comparatively lower for this reason.

Finally, inter-State variations in density are, to some extent, due to inertia. People cling to their native areas even though the prospects of living conditions may be brighter in other States but where customs and language are different

Obviously no single factor can explain variations in density. A happy combination of several factors goes to make for a higher density. For a long time, the influence of the geographical factors was overwhelming. But they have now ceased to be the sole and exclusive influences They are steadily giving place to factors which are under human direction and control

One might say that if we compare the density of population in India (370) with some other countries, like the U K, there seems to be no cause for alarm. The densities in some European countries are: U.K. 536, Belgium 654, Germany 443 and Italy 394 In Japan the density is 579. But we should not forget that these countries are highly industrialised As such they are in a position to support much larger population India, on the other hand, is an agricultural country and can ill-afford to bear the burden of such a huge population. In other countries of the world, where agricultural sector occupies an important place, the density is much lower, e g, France 193, China 123, U.S.A 50, U S S R. 23 and Canada 3. When we look at these figures we certainly feel concerned. In India with increasing numbers, the pressure on the soil has greatly increased. Between 1921 and 1951 the 'area of cultivated land per capita', the 'double crop area per capita' and the 'irrigated area per capita' declined steadily and was substantially lower in 1951 than in 1921.

Is there any connection between Density of Population and the Level of Prosperity in a country? It would appear that so far as density of population per square mile is concerned, we are in the company of rich and prosperous countries like U.K. From this, one might conclude that there is a connection between high density and prosperity. It may be argued that a large number of industrious and resourceful people will better develop the resources of a country and contribute to its material prosperity.

The argument seems plausible. But it is fallacious. **If a country is densely populated, it does not necessarily follow that it must be prosperous.** The United States—the richest country in the world—has got a very low density of 50 persons per square mile. Australians are fairly rich, yet their density is as low as 3. The U.K. with a high density and the U.S.A. with a low density, both enjoy a high standard of prosperity. Thus there is no necessary connection between density and prosperity. Of all agricultural countries we have the highest density. But far from indicating a large measure of prosperity, this density is actually a cause for alarm. A dense population cannot be economically prosperous unless it develops industries and produces more per acre.

Problem of Urbanization

According to 1961 census, 17.97% live in cities and towns. 82.3 per cent of the people in India still live in villages. The conditions in the West are quite the reverse. In Western countries, the percentage of urban population varies from nearly 52 in France to 80 in England. Apart from the centrally administered area of Delhi, the most highly urbanised States are Bombay (where one-third of its population is urban) and West Bengal and Mysore with one-fourth. Among the least urbanised States are Orissa (6.32%), Assam (7.69%) and Bihar (8.43%).

The distribution of population between rural and urban areas is significant Economic progress in every country has been marked by a corresponding increase in urban population. The fact that a very small proportion of our people live in urban areas shows that **we are yet far behind other countries in the development of trade, transport and industry. It indicates much dependence on agriculture.**

The rural-urban distribution of population in a country is also significant from another point of view. It throws light on a people's national character. It is believed that persons living in the villages are generally lethargic, conservative, and impervious to new ideas. Villages are backwaters of civilization. On the contrary, it is believed that people in cities are alert and resourceful. It is from the cities that all progressive ideas radiate. The total number of cities in India (with a lakh and over of population) was only 107 in 1961, and of major towns (with over 20,000) was 515. The fact that India has only a few cities indicates its industrial backwardness.

These considerations call for a more balanced distribution of our population between rural and urban areas. Not only is the proportion of our urban population insignificant, but progress in this direction has been slow. There has been only a slight shift towards urbanisation. From 11 per cent living in urban areas in 1921 we have advanced to a nearly 18% in 1961. But although the percentage of increase has been slight, **yet the absolute growth in urbanization is substantial.** The partition of the country in 1947 stimulated urbanization greatly. The main causes of urbani-

zation are industrialization and diversification of livelihood, attractions of city life and anti-money-lending legislation passed in the States.

But urbanization to the extent prevailing in the West is not compatible with Indian climate. Even with an 18 per cent people living in towns, the congestion in some of them is terrible. Tuberculosis and venereal diseases are rampant, while epidemics take a heavier toll in cities than in the open countryside. The "slummery" is destructive of both the moral and physical health of the labourer.

In India, therefore, we do not advocate piling up of people in big cities, blindly following the West. We should have planned development of our cities so that evils associated with congestion are prevented; we should have medium-sized, open, airy and healthy towns. **We need in India the urbanization of the rural and ruralization of the urban centres.** The new town of Chandigarh in the Punjab is a good example to follow.

Occupational or Livelihood Pattern

The following table shows at a glance the occupational pattern of the workers. The percentages of 1951 have also been shown to bring out the shifts that have occurred during the last decade:—

	1951	*1961*	*Remarks*
Cultivation & Agriculture Labour	69.74	69.53	Small but distinct reduction
Forestry, Plantations, Mining, Quarrying, etc.	2.95	2.75	Increase
Household Industry & Manufacturing	10.00	10.61	Distinct increase
Construction	.05	1.09	Distinct increase
Trade and Commerce	5.24	4.05	Decline
Transport, Storage & Communication	1.53	1.59	Distinct increase
Services	10.49	10.35	Small increase

It can be seen easily that out of 100 Indian workers, 65 are engaged in cultivation and agricultural labour, 12 in industry and manufacturing, 12 in services, 6 in trade and commerce, 4 in forestry, mining, etc., 3 in transport and communications and 2 in construction.

The classification in the above table shows that 70% of the people depend on agriculture and 30% on non-agricultural occupations. Only in Delhi and the Andamans the non-agricultural population exceeds the agricultural. Even in industrially advanced States like West Bengal and Bombay the number engaged in agriculture is greater.

Even a casual look at this distribution shows the very uneven distribution of our people over the various occupations. It indicates the unbalanced nature of our economy.

Very few people are engaged in administration and liberal arts. This shows a high degree of illiteracy and intellectual backwardness. According to 1961 census, literacy was 24% for India as a whole and 13% for women only. Great effort is needed to accelerate the drive for increasing literacy in the country. In the absence of alternative sources of employment, however, it is understandable why people fight so hard for the limited number of Government jobs.

Although 12 per cent are shown as being engaged in industry in 1961, actually a much smaller number is accounted for by organised industry. When we know that less than one-fifth of our people are engaged in trade, transport and industry, we find a clue to Indian poverty. The majority are doing unremunerative work, hence poverty is inescapable. "Industrialize or perish" should be our slogan. Development of agriculture alone cannot pull us out of the mire of poverty. In fact the most distressing fact about our vocational distribution is that an overwhelming number of people are dependent on agriculture. India shows the highest percentage of people in the world as engaged in agriculture and yet the pity is that the country is not yet self-sufficient in foodgrains.

Agriculture is the least remunerative of occupations. Economic progress has always been marked by a diminution in the numbers engaged in agriculture and by an increase in those engaged in trade, transport, and industry. In England, for instance, less than 10 per cent of the people depend on agriculture. To make matters still worse, as stated before, Indian agriculture is a gamble in rain. It is subject to the law of diminishing returns. It is a seasonal occupation and subjects our people to enforced idleness for several months in the year. Our excessive dependence on agriculture is thus an index of unbalanced economy and is one of the most important causes of our poverty. Last half century has made little change in this position.

The 1961 census report has indicated some shifts in vocational distribution. Marked changes are evident in the rural and urban sectors separately. In rural areas, the increase in the proportion of workers has outstripped that of natural growth; this has not happened in urban areas. Cultivators in rural areas have shown substantial increase, both absolute and comparative. Agricultural labour shows decline in ratios during the last ten years. Forestry, Hunting, Fishing, Mining, Quarrying, etc., show substantial increase in rural areas among males. Increase among workers in Household Industry and Manufacturing has been markedly high in both rural and urban areas. But there has been steep decline among women workers in construction in urban areas.

Curiously enough, in spite of the larger volume of trade and commerce in the country, there has been a general decrease in the ratio of workers in this category in both rural and urban areas. There has been a marked increase among workers in Storage, Transport and Communication, in both rural and urban areas. Services have also markedly increased in rural areas but have registered decline in the last ten years in urban areas. While the proportion of workers in rural areas has exceeded the decennial rate of growth, the proportion of non-workers in urban areas has been steeply on the increase, both in absolute and comparative terms.

Sex Ratio

Of the total population of 439.2 million covered by the census in 1961, 226.3 million (or 51.4%) were males and 212.9 (or 48.6%) were females. Over the country as a whole there are 941 females against 1,000 males According to 1961 census, the figures are 940 females against 1,000 males. The position in the world at large is much better, there being 992 females against 1,000 males. The disparity in the number of the two sexes presents an important social problem.

The main causes of sex disparity are: (i) A larger proportion of boys than girls seems to be born in this country than in the West. (ii) The statistics indicate that girls in the first few years of their life still seem to suffer from greater neglect than boys. (iii) A heavy toll of female lives is still taken in the earlier period of reproductive age, i.e., 15—34. The gap thus created is not filled up in later years.

Early marriage, purdah among Muslims, and the lack of trained midwives are the causes of the greater mortality among women. Maternal mortality is the most important cause of there being fewer females in India. Malnutrition, consumption and uterine diseases, too, take a heavy toll. Conditions of life in India are definitely harder for women than men.

Madras, Orissa, Travancore-Cochin and Kutch are the only parts in India with more females than males. Delhi has only 768 females to every 1,000 males, while greater Calcutta and greater Bombay have only 602 and 569 respectively. Conditions in cities are much worse than in villages. South India and Central India are, however, better off than North and North-West India. In N.W. India the ratio is 888 per 1,000 while in South India it is 999.

According to 1961 census report, the proportion of females to males is slowly declining. This means that risk to female lives at most ages has not improved upon the risk to male lives. This emphasises the fact that demographically India has not yet entered the modern industrial age in which the risk to male lives is increased and the risk to female lives is reduced.

Expectation of Life

A child born in India expects to live a much shorter life than one born in other countries. The expected age for males in 1951 was 32 years and five months and for females 31.66 years. Expectation of life during the Second Plan was estimated to be 41 years and nine months. According to 1961 census final estimate, the expectation of life at birth has risen to over 45 years. This rise is due to a decline in infant and maternal mortality. But expectation of life in India is still far below than that in some other countries. The expectation of life at age 10 is 60 in Britain, Australia and New Zealand; 56 in U.S.A., about 50 in Japan and 47 in Egypt. Poor nutrition is responsible for the low expectation of life. Not only is the food insufficient in quantity, it is also poor in quality.

The short expectation of life in India is largely due to infant mortality. Being uneducated, the Indian knows little about the laws of health, food and sanitation. Besides, the climate of the country is favourable to the spread of epidemics.

The present short expectation of life in India can only mean that the labour and expense of bringing up human life do not yield a proportionate return. People die off in the prime of life when they can best contribute to the welfare of the community. Deprived of such rich lives, India is bound to be poor.

Age Structure

The age composition of a country's population can be presented in the form of a pyramid, the base representing the children born. All the children born do not survive. As we go up the pyramid, the numbers are cut down so that the pyramid becomes narrower towards the top. The shape of the pyramid reflects the survival rate in the country. India has got the highest birth-rate and the highest death-rate in the world. The Indian pyramid, therefore, has got a very broad base and a sharp tapering top.

In U.S.A. infants and young children are 10.8 per cent while they are 13.5 in India. Similarly American boys and girls are 16.3% while in India boys and girls number 24.8%. As we climb the age pyramid higher up we find that the percentage increases in U.S.A. while it is on the decrease in India. The percentage is 30.4 in U.S.A. against 30.0 in India. The higher slabs of middle-aged persons are larger in America than in India, the total in U.S.A. being 25.6% against India's 20.4%. The slabs of elderly persons are similarly larger in U.S.A., the total number being 16.9% as compared to 8.3% of India's. Hence in terms of food, attention during illness, education, and other kinds of preparation for life, the Indian child is much poorer than his American counterpart. In other countries, the proportion of people who live beyond middle age is generally higher than in India. Their valuable experience is thus available to the country but this is a loss to India.

Birth and Death-rate

India leads the world both in births and deaths, a sorry distinction! The table below gives a comparative statement of birth and death-rates in India and some other countries :—

Birth and Death-rates

Country	*Birth-rate*	*Death-rate*	*Year*
U.S.A. ...	24.4	9.9	1948
U.K. ...	18.1	10.9	
Canada ...	26.9	9	
Australia ...	23.1	10.0	
France ...	18.0		1940
Germany ...	17.0	11.0	
India ...	39.9	27.4	1951

The 1961 census report says that "there are reasons to assume that the birth-rate will be still around 40 while the death-rate will be around 18 or still lower, for there is little doubt that the rate of natural increase has been steadily accelerating from year to year.

The large number of births is due to universal marriage and the high fertility per marriage. The people are illiterate, ignorant and superstitious. They do not exercise any conscious check on the growth of their families. Their standard of living is so low that the increase in the size of the family causes little financial worry. But if more come, more die too. The higher degree of infant mortality—127 per 1,000 live births in 1950, against 29.2 in the U.S.A., 29.8 in the U.K. and 28 in Australia—is due to early marriages, ignorant motherhood, defective midwifery arrangements, insufficiency of milk supply and the practice of drugging the child. About 50 per cent of the deaths in India occur among children under 10 years as against 9.7% in U.S.A. and 5.3% in England. Appalling poverty and widespread epidemics mercilessly cut down numbers. A great deal of the labour of motherhood goes in vain.

With a progressive fall in infant and maternal mortality, with a downward trend of the cholera and plague deaths, with a falling death-rate and a steady birth-rate there was bound to be a greater increase in population in the last two decades. This fall in the death-rate has created in addition a potential for a further increase in population which increase is apparent in the 1951 census for the decade 1941 to 1950.

A study of the birth and death-rate tables for England tells us that there was a time-lag of about 20 years between the downward trend of death-rate and a similar movement in birth-rate in that country. Death-rate started falling in India in the decade 1921-31. It would not, therefore, be unreasonable to expect a similar fall in birth-rate too. But it will take time and until that happens increase in our population must be faster still. Prof. Karve, in his **Handbook on Indian Population,** points out that the real fall in net birth-rate commenced in England half a century after the gross birth-rate started falling. He, therefore, fears that **India may have ahead of it an immediate period of even higher members.**

Growth of Population

One of the most formidable problems facing India today is the alarming growth of its population.

The following table shows how population has increased since 1901 when the first systematic census was taken.

Population

Census year		*Number (in lakhs)*	*Increase (+) or decrease (—) during preceding decade (in lakhs)*	*Percentage*
1901	...	2,362	—4	
1911	...	527	+135	+5.73
1921	...	2,513	—9	—0.31
1931	...	2,790	+274	+11.01
1941	...	3,187[1]	+373	+14.22
1951	...	3,611	+441	+13.31
1961	...	4,392	+823	+21.50

1. 20 lakhs have been deducted on account of inflation of returns in Punjab and West Bengal in the 1941 census.

It is seen that during 60 years between 1901 and 1961, the population in India has increased by 2,030 lakhs. This is a huge increase, and even taken by itself is very alarming. The rate of increase in the three decades after 1921 at 11.01%, 14.22% and 13.31% is very great and is, therefore, still more perturbing. The annual increase in our population is of the order of 4.5 million, i.e., 1.25%. The increase in 1951-1961 was 21.50%, i.e., more than 2% per year.

Evidently the growth in numbers during the last six decades has not been smooth. The increase is irregular from decade to decade. The 60 years' period automatically divides itself into two parts, the first from 1901 to 1921 and the second from 1921 to 1961.

Between 1891 and 1921, the rate of increase was small and fluctuating. In fact it was much smaller than in some other countries. For instance from 1872 to 1931, the population in India increased by roughly 31% whereas during the same period in England and Wales, it increased by 77%.

1921 has been described as the Great Divide. Whereas in the sixty years, 1901-61, India's population increased by more than 84%, the first 20 years (1901-21) saw a net growth of only 5.35%, next 20 years (1921-41) of 26.79% on 1921 and the next 20 years (1941-61) of 37.67% on 1941 while the decade (1951-61) alone has shown an increase of 21.50% on 1951. There is a startling difference in the numbers added to the population in the two periods. The 'child-bearing' habits could not change so quickly. The main reason for the greater increase in the second period then, is the fall in the number of abnormal deaths from famines and epidemics. The influenza epidemic of 1919 had taken a toll of 22 million people nearly. During the 40 years, 1921 to 1960, nature was kind except in 1943, when there was a big famine in Bengal. Improvements in communications prevented large-scale famine mortality and have localised famine. Besides, the methods of conquering epidemics have been greatly improved. Discovery of sulpha-drugs and penicillin and improved sanitation have helped to keep alive many who would have otherwise died.

There is no doubt that the population of India has been increasing at an alarming rate. From 1931 to 1941, the fresh addition to our population exceeded the total population of England and Wales. With more than 365,000 square miles loss of territory as a result of partition, India more than made up for the population of Pakistan, three years and a half after which she had lost on the eve of independence. The increase between 1951 and 1961 (i.e., 21.50%) is unprecedented and has beaten all records. At the present rate of increase India's population in 1971 might well be over twice her population in 1901. What is alarming is not so much the rate of increase, which now is inordinately high, but the large absolute increments. The increase during last decade has been described as great leap forward. With regard to England, Goldsmith said, "Where wealth accumulates, men decay." But in India the position is quite the opposite. 'Here men accumulate and wealth decays.'

Causes of the Great Increase

The causes of great increase in population from 1901 onwards are as follows:—

(i) The irrigation schemes in West Punjab (now in Pakistan) threw open semi-desert areas to new colonization. The same was

the case in New World and Australia when the human tide first flowed into them from Europe. Bikaner has had a similar experience.

(ii) The 1931 census figures were incorrect as the census was taken in a period of political disturbances. The Civil Disobedience campaign was responsible for leaving many persons unregistered. The leakage was the greatest in North India. All that slack was, however, caught up in 1941. This gave a greater increase in numbers.

(iii) In 1941, the country was much census conscious and no one wanted to be missed in the count. In fact, it has been suspected that misjudged communal enthusiasm vitiated enumeration and 20 lakhs have had to be subtracted from 1941 figures in the 1951 Census Report

(iv) Though arrangements for medical aid are still meagre in India, yet there is no doubt that after 1921 the facilities for such aid have progressively increased. Besides, the mortality from epidemics like cholera, small-pox and plague has decreased. As a result, while **the birth-rate has remained steady, the death-rate has gone down.**

(v) The greatest cause for the increase in numbers is the low standard of living in the country. It is an established fact that the poorest classes are the most fertile. Indian poverty is proverbial, hence the great increase in numbers.

(vi) In India marriage is universal. In U.K., one-third of the women aged 35 are unmarried, whereas in India 76% of the women of reproductive age are married. Hence birth-rate in India must be higher.

(vii) Since marriage takes place early, there is a longer span for reproductivity. More than eight out of ten girls in India are married, whereas the percentages of unmarried women aged 30 in U.K. and U.S.A. are 41 and 23 respectively.

(viii) Due to grinding poverty, a poor man welcomes further additions to his family. He expects every member to earn and supplement the family income. This also serves as an incentive for increase of population.

(ix) There is complete absence of conscious family planning in India. Use of contraceptives is practically unknown. There is no wonder that population should register a rapid increase.

(x) There are also several other factors which contribute to the phenomenal increase in population in India. for instance, the tropical climate makes for earlier puberty; the joint family system is responsible for reckless bringing forth of children; and existence of polygamy works in the same direction.

The Census Report 1961 points out that the cause of increase in India's population lies mainly in the elimination of famines, epidemics and wasting diseases especially malaria during the last

decade and in the general improvement and economic development. Although the birth-rate has not fallen appreciably, the death-rate has dropped steeply.

These are some of the factors which have had the cumulative effect of a massive increase in our population. In fact India presents a spot of a very serious demographic pressure. It is not easy to change population trends or reproductive behaviour of a community. It might take two-three generations to do so. Dr. Chandrasekhar has estimated that at the present rate of increase, population of India would touch an alarming figure of one billion by 1999.

Comparison with other countries. We have seen that the mean 'decennial growth rate' in India was 11.01%, 14.22%, 13.31% and 21.50% in the four decades preceding 1961. The rate in U.S.A. appears to have been 19.0 (1910), 13.9 (1920), 14.9 (1930), 7.0 (1940) and 13.5 (1950). In U.K. the rate was 9.6 between 40 and 50 years ago and 4.4 during the last 20 years. France had a rate of about 6%, while Italy had 6, 7 or 8% for several decades. Japan had a consistently higher rate than India, roundabout 14%. It is thus clear that the rate of increase in India during the last half a century is generally higher than in most countries.

Population Problem in India

It would be instructive at this stage to compare the population problem in this country with that in Europe and America. As a matter of fact the population problem as such does not exist in U.S.A., Canada, Australia and other new countries. They are yet young, their density of population is thin, and their resources of food and other commodities almost unlimited. In Europe, too, the position is different from that in India. Population increased steadily in Europe, no doubt, but the standards of living did not fall. On the other hand, material progress increased. Thus there is greater prosperity and a higher per capita income in Europe today than a hundred years back in spite of the increased numbers.

In India, **the population problem is altogether different.** The rate of increase in the first two decades of this century was relatively slow, but the numbers have shown an increase of no less than 36% during the last 30 years (1921—1951). This accelerated growth of population has not been the result of an increase in the birth-rate so much as of a decrease in the death-rate. The recent trend is a slight fall in the birth-rate but a bigger fall in the death-rate. This fall in the death-rate is obviously the result of progress in medical science. It is, therefore, probable that during the next many years to come, the tendency for growth of population will persist.

On the other hand, during these years the standards of living in India have not risen much. There has been very little change in the occupational structure. For instance, the 1961 Census Report shows nearly 70% of the working population is engaged in

agriculture. The figure for 1911 was 71%. Besides this the net sown area per capita has actually gone down from 111 cents in 1921 to 84 cents in 1951.[1] Between 1921 and 1951, Indian population increased by 44%, whereas the area under cultivation increased by only 5%. In the industrial sphere, too, there has not been any remarkable increase as is obvious from the occupational tables. The rate of progress of industry has thus not been rapid enough to offset the pressure of population on land. Hence there has been not much increase in real income per head.

Assuredly India has potential resources. Modern technique, if well utilized, can increase the productive capacity of the country. But it is quite clear that under the present conditions an increase in population does not strengthen India's economy but, on the other hand, weakens it. Increasing pressure of population at the present rates would easily catch up the enhanced production from Five-Year Plans in the country and present the problem again in the same acute form after a few years. This is our problem.

Is India Over-populated?

This question is often asked. To answer it we must know what over-population means. The idea of over-population is closely connected with the concept of optimum population. For every country, there is an ideal number which it can maintain in reasonable health and efficiency. This number is not absolute. It is relative to the economic resources of that country and the extent of their development. If the resources have not been developed, even a small population may be excessive. If, on the other hand, they are better developed, a large population may be adequately supported.

There are people in India who think that she is not over-populated because her density of population is much lower than most of the European countries and her natural resources are immense. This inference is fallacious. Our potential resources are, no doubt, vast but they have not yet been adequately exploited. Considering the extent to which our resources have been developed, there is not the least doubt that even the present numbers are a burden. Countries with a higher density are more prosperous and can maintain larger numbers than we can. If and when, however, India produces more food per acre, manufactures more goods and digs up more minerals and utilises them more efficiently, she will certainly be able to maintain a bigger population on a higher standard of living. Today she has more numbers than she can properly maintain. At the lowest minimum of 1,400 calories, we are in a position to feed only 300 million people. The rest of the people (nearly 100 million) are either starving or on the brink of starvation.

If we can show that population in India has gone on increasing unchecked, then, according to Malthusian theory of popula-

1. *Census of India*, Part I-B, Table 1.7.

tion, we shall have a strong presumption in favour of a state of over-population. For this purpose we shall have to see to what extent the various checks contemplated by Malthus have been in operation. In European countries there is a large number of bachelors and spinsters. But in India, marriage is universal. Universality of marriage, however, need not lead to increased population if fewer children are born per marriage. Lower fertility can be achieved by marrying late, by conjugal restraint or by the use of contraceptives. But marriages take place early in India and there are no efforts at restraint. On the contrary the majority are keen on children and believe that "He who gives the mouth will also supply food."

Thus we see that what Malthus called **'preventive checks'** do not operate in India. On the other hand **'positive checks'** like famine and epidemics have full play. Malthus warned that if population was not checked by preventive checks a country would become over-populated and positive checks would cut down numbers. The existence of a high birth-rate in India with a lower death-rate shows that the population is rapidly on the increase.

The high maternal and infantile mortality rates, the short span of expected life, and the low per capita income are sufficient indications of the fact that the country is overflowing with people. No deliberate checks are employed to restrict numbers. There is chronic unemployment. There is widespread malnutrition. Millions subsist on the sub-human level. Hence very few people seriously question the contention that India is over-populated.

The Indian population is now increasing at an alarming rate indeed. While death-rate has fallen due to public health measures, birth-rate has not shown any significant decline. Consequently the survival rate has become much larger. A veritable population explosion is feared.

Population Policy

Let us then concede the fact of over-population in India, examine various remedies and suggest a population policy for India.

Medical knowledge and social welfare schemes have lowered the death-rate, but the birth-rate is almost constant. The Census Report suggests (a) increase in agricultural production and (b) reduction of improvident maternity to meet the situation The Planning Commission too has laid great stress on family limitation. We discuss below various suggestions in this respect:—

Family Planning

By Family Planning or planned parenthood is meant conscious family limitation or spacing of children. In other words it means having babies by choice and not by chance. This requires the adoption of some suitable methods of birth control. In the countries of the West, it has since long become an integral part

of the lives of their people. Its importance and the resulting benefits may be judged from this that a thinker of the eminence of Dr. Julian Huxley puts the art of family planning on par with such great inventions as the making of fire and the art of writing.

We, in India, did not think of it till now, but only at our own peril. It is not a day too soon that we should now take it up on national scale. Its adoption is imperative for important **health, social and economic** considerations, which we may discuss in brief.

It is an essential step towards the improvement in health, especially of mothers and children. High infantile and maternal mortality is the direct outcome of frequent and ill-spaced child-births. Family planning is, therefore, necessary and desirable in order to secure better health for mothers and better care and up-bringing of the children. This will be a great social gain.

The **economic grounds** are even more compelling. The population of the country is soaring rapidly on the top of an already massive size. Industrialization and agricultural development are not an adequate answer to the challenge of our population problem since additions to wealth-production will be eaten up by the fresh torrent of children. It has been estimated, for example, that the annual addition to our population would require about 5 lakh tons of additional foodgrains annually.

Of late, without birth-rate rising, the rate of population increase has become larger. This is due to the falling death-rate. The Government's extended public health measures (e.g., the big anti-malaria campaign started with U.S. assistance) are bound to lower the death-rate and thus increase the natural survival rate. Thus the need to bring down birth-rate by family planning has become all the greater.

Difficulties. However, its quick and nation-wide adoption is more easily said than done. To begin with, the most formidable difficulty is the general **prejudice against it.** This is due to our culture and tradition. Our belief in the **Karma** theory makes us indifferent to the size of our family. It is, therefore, necessary to fight the existing prejudice and to make the masses family-planning minded.

Then, there is no such method of control which should at once be acceptable, easily intelligible, effective and safe and yet well within the means of even the poorer sections of the community. Our people are too poor to be able to afford the methods of contraception—chemical or mechanical—which are in vogue in the West. Dr. Abraham Stone, an expert from the U.S.A. who was specially invited by the Government of India to suggest a suitable and cheap method easily practicable by the masses, advocated the **safe-period or rhythm method**, which does not require any mechanical devices but is based on the existence of a 'safe period'

every month in women during which there is no danger of conception.

Thirdly, there is **question of finance**. Huge funds will be needed to start family planning clinics all over the country and to subsidize the distribution of contraceptives.

The best thing is to make advice on family planning an integral part of the services of Government hospitals, public health agencies and maternity and child welfare centres.

Lastly, illiteracy of our women is a formidable obstacle. We cannot entrust the mother with a contraceptive and some printed instructions. Practical demonstrations in family planning centres can meet this difficulty till general enlightenment spreads.

The stake in not adopting family planning is so high that measures must be devised to overcome obstacles. It is indeed gratifying that the Government of India have declared their resolve to tackle the various issues involved in its popularisation. Indeed, India is the first country in the world to take up family planning at Government level. A sum of Rs. 65 lakhs was accordingly provided in the First Five-Year Plan for a family planning programme. The objects of the family planning programme are (i) to obtain an accurate picture of the factors contributing to the rapid increase of population in India; (ii) to discover suitable techniques of family planning and to devise method by which the knowledge of these techniques can be widely disseminated; and (iii) to make advice of family planning an integral part of service in Government hospitals and public health agencies.

Subsequently the Second Five-Year Plan made a larger provision—of Rs. 5 crores. A high-power Family Planning Board has been constituted at the Centre to formulate family planning programme. Family Planning Boards have also been set up in almost all States. Training in the technique of family planning is being imparted at good many centres. Efforts are made to educate public opinion with the help of pamphlets, posters, films, etc. Research on contraceptives is also being carried on and suitable contraceptives are tested and recommended. From small beginnings during the First Plan, the programme has expanded so that by 1961 there were expected to be 676 urban centres and 1,121 rural centres engaged in family planning. The Government of India have decided to give prizes and certificates of merit to the best family planning clinics and family welfare workers in the country. A special committee was set up by the Government to review the programme and to make recommendations for the programme to be incorporated in the Third Five-Year Plan. Its report proposes to intensify and extend the present programmes, the main emphasis being on the following aspects:

(i) widespread education to create the necessary social background for a large family planning programme;

(ii) integration of family planning activities with the normal health services;

(iii) provision of family planning services, including facilities for sterilization, through medical and health centres, and facilities for distribution of contraceptives;

(iv) development of training programmes in medical colleges and other teaching institutions; and

(v) utilisation in the family planning campaign of local voluntary leadership to the largest extent possible.

For the Third and Fourth Five-Year Plans, the Planning Commission has recognised the family planning programme as a "key programme" and in the Third Plan a much higher provision of Rs. 50 crores has been made for it.

In an under-developed country, where most of the people are poor, ignorant and illiterate, population planning can yield very moderate results. More strenuous efforts and concerted action are needed to achieve a proper balance between resources and population. We should remember that a rapidly growing population like ours presents a formidable problem. At present population growth is eating up economic growth. "Key to India's economic future lies in immediate and effective implementation of a nation-wide population control programme."

For India reducing birth-rate is a matter of top priority. The December 1958 issue of **Population Bulletin** published in U.S.A. gives a warning to India in the following words: "A period of grace still exists in India, but the time is short. Every year that no effective attack is mounted against high fertility, moves India one year nearer the demographic point of no return, when the rising tide of people swamps economic improvement...sheer numbers will have stifled economic development and thwarted that break through to a better life envisaged by her Five-Year Plans. Rather she will remain deeply engulfed in the morass of poverty and misery...Rarely in the course of history has the road to nation's survival so clearly defined. Will India travel it?"

Economic Development

There is also a second line of attack on the population problem. To cure the evil of over-population in India, economic development must be accelerated. Industry, trade and transport must be developed. Increased production will raise the standard of living and check population. The experience of Europe has shown that rise in the standard of living automatically releases certain physical and psychological forces which restrict population growth. Although the rationale of lower fertility has not yet been understood, yet there is reason to believe that the same forces will work in India as in Europe, once the living standards start rising. "Once the standard itself has become a constantly rising quantity it meets a check sooner or later, and then individuals are prone to seek a qualitative relief by a quantitative limitation."[1] A material betterment puts a natural check on an individual's procreative tendency.

1. Karve, D. G.: *Economic Studies*, p. 134.

But this betterment should be big and long continued enough for the individual to take interest in his own future welfare. For with improved standards of living, the immediate effect may be a fall in death-rates but not a proportionate fall in birth-rates. The numbers would thus increase instead of decreasing. Hence it is rightly feared that unless direct methods of reducing the birth-rate are adopted in India, an accelerated rate of increase in numbers will come about in the immediate future.

If, however, the betterment in standards of living is large and continued and increased numbers cannot catch up with the increasing production, ultimately the birth-rate will fall as has been the case in France and England. In the meantime, direct methods of checking birth-rate must be adopted. The Family Planning Third Five-Year Plan Committee has suggested that appropriate legislation be introduced, if necessary, to help in the sterilization programme. No birth bonus but a tax on births after third child were other measures considered by the Committee.

Education

Indian masses are uneducated and ignorant. Mere propaganda from above cannot check numbers, the impetus must come from the people themselves. Population will run up to the increased means of subsistence as long as birth control schemes do not work simultaneously. At least elementary education, along with plan for educating adults, is most essential to introduce large-scale family planning. In a free India with the government and people working together, there is no reason for despair; for the ball gathers momentum as it travels on. In 1961, 24% were literates (male 34% and females 13%), whereas in 1951, the corresponding figures were 16.6% (males 25% and females 8%).

Qualitative Control

The most serious part of the problem is that the greater population increase comes from inferior stock. This fact has been established beyond doubt by intelligence surveys of children coming from different classes of people in a society.

In India, therefore, we need not only propaganda for birth control on a national scale, i.e., quantitative controls, but also a eugenic planning of population, i.e., qualitative controls. People suffering from mental and physical diseases should be prevented from multiplying themselves and as far as possible reproductive selection should be taken in hand.

The main planks in a suitable population policy are:

(i) Integration of family planning programme with community development programme;

(ii) Spread of education especially in the rural areas;

(iii) Effective quantitative and qualitative control of population;

(iv) Planning not for the existing but for the future population;

(v) Considerable stepping up of expenditure on family planning; and

(vi) A continuous watch by an expert body on population trends.

A population policy on the above lines will go a long way in mitigating the evils of over-population and will bring about a much desired balance between population and the means of subsistence.

The problem created by galloping population is clearly stated by the Third Plan thus: "In an economy with low level of income and consumption, high rates of population growth severely limit the pace of economic development. They increase the requirements of consumption and the difficulty of finding productive employment for the growing labour force."

Like other under-developed countries, India is not only suffering from high birth-rate, which increases the proportion of children, but also from low average expectation of life reducing the working span of the people. The consequence is that there are more children to support and fewer adults to support them. There is thus the burden of uneconomic age distribution. This necessitates the allocation of large outlays for the production of consumer goods. To this extent the building up of the productive capacity of the economy is slowed down.

One important consequence of this rapid rate of population growth is that it throws more and more people on land. Since alternative occupations do not grow simultaneously to absorb the growing population, the resultant pressure of population on land gives rise to what is called disguised unemployment. This means, in technical terms, that marginal productivity of labour in agriculture is zero. Even if some labour is withdrawn from agriculture, it will not lead to a fall in agricultural production. This is due to excessive number of people on land. Schemes of economic development must take into account this fundamental fact of Indian economic life. This surplus labour can be a source of capital formation and must be exploited as such.

Thus various aspects of population must be taken into account in the formulation of development plans.

CHAPTER **IV**

Social Institutions

Importance of Social Institutions in Economic Life

In the preceding chapter, we studied the people, i.e., population and its problems. In this chapter, we shall study the social institutions of our people. Economic activities are intimately mixed up with social and cultural activities in a country. Man's character is influenced by his everyday activities—religious, social and economic. His achievements in the economic field are largely a result of his social environments. As Dr. Marshall says, "The two great forming agencies in the world have been the religious and the economic." The industrial and commercial life of a community is thus a corollary of its religious and social institutions. This is perhaps more true of India than of most other countries. Hence study of such institutions in India will be very fruitful.

Some important social and religious institutions of our people are: The caste system, joint family system; laws of inheritance and succession, the religious and spiritualistic outlook, the prevalence of status and custom, universality of marriage, custom of early marriage, social ban on widow re-marriage, **purdah** system, prejudice against female education, elaborate and costly rituals in connection with births and deaths and other social ceremonies, philosophy of **karma** and the transmigration of soul and so on. All these institutions have affected Indian economic life one way or the other. We shall, however, select for study only those which have exercised deeper influence in moulding economic life of our people, e.g., the caste system, the joint family system, laws of inheritance and religion.

Caste System

One of the oldest institutions in Indian society is caste system. It still holds sway over Indian mind. The **Imperial Gazetteer** of India vividly describes the idea: "Birth determines irrevocably the whole course of a man's social and domestic rela-

tions and he must throughout life eat, drink, marry and give in marriage in accordance with the usages into which he was born."[1]

The same authority defines caste as a "collection of families or group of families bearing a common name, which usually denotes and is associated with a specific occupation, claiming common descent from a mythical ancestor, human or divine; professing to follow the same calling, and regarded by those who are competent to give an opinion as forming a single homogeneous community."[2]

Origin of Caste. Many eminent writers have tried to find how caste originated. Dr. Marshall writes: "In early times when religious, ceremonial, political, military and industrial organizations were intimately connected, and were indeed different sides of the same thing, nearly all those nations which were leading the van of the world's progress were found to have adopted a more or less strict form of caste."[3] Caste normally developed with the Aryans wherever they went and settled: in Greece, Rome and India.

James Mill believes that caste system developed as a result of the need for division of labour. Manu mentioned four caste functions as teaching and preaching; administration and protection; agriculture and commerce; and service and manual labour. Their corresponding names are the Brahman, the Kshatriya, the Vaish and the Sudra. In the beginning movement from one to the other was possible. But gradually the caste system became rigid and hereditary.

Merits of Caste System

Caste meant the partial sacrifice of the individual in the interests of the many. Personal greed was at a discount while social stability was at a premium. Caste has been defined by its admirers as "ancient time-tested scientific socialism maintaining the balance of power between the vocational classes."[4]

It was caste which was responsible for the development of an autonomous village organization with the Panchayat as a pivot of its body politic. The Panchayats have shown great vitality and various State governments have revived them in their pursuit of rural uplift.

To divide society into caste-groups and initiate a simple division of labour was a great brain-wave. It brought order out of chaos and resulted in great economic advancement. It put the Aryans in the van of nations. There was no need to find an occupation for a young entrant into life. His place was ready the moment he was born. As he grew up he learnt his art in the

1. Vol. I, p. 323.
2. *Ibid.*, p. 313.
3. Marshall: *Principles of Economics*, p. 200, 1936 Edition.
4. Bhagwan Das: *Ancient vs. Modern Scientific Socialism.*

most sympathetic of all schools—the parental school. He inherited his father's skill and craft, and passed them on to his son in his turn.

The idea propagated was that everyone was born according to his actions in his past incarnation and had to occupy the place he was destined to. Thus caste minimised class conflict and served as an insurance against the uncontrolled working of economic forces.[1]

The castes served as trade unions and performed all the militant and beneficent functions usually associated with trade unions. They protected the interests of their members by prohibiting outsiders into their calling. The system provided for united action against exploitation. Besides, it protected the weak by eliminating competition.

The caste organisation to a Hindu has been **"his club, his trade union, his benefit society, his philanthropic society all rolled into one."** "Thus was the ancient tradition preserved, social tranquillity safeguarded, civic and economic welfare secured, individual happiness and contentment promoted."[2]

Demerits of the Caste System

Caste system possessed many merits when it was initiated but with the growth of vested interests most of its merits vanished. Lack of flexibility is responsible for most of its faults. "A caste," says Risley, "is an organism of the lower type ; it grows by fusion, and each step in its growth detracts from its power to advance or even to preserve the art which it professes to practise."[3] Dr. Radhakrishnan also agrees when he says. "Unfortunately this device to prevent the social organization from decay ultimately prevented it from growing."[4]

Today caste stands in the way of economic progress. It debars people from taking up professions for which they have aptitudes and puts many round pegs in square holes. It kills the spirit of enterprise and initiative by making functions hereditary. It obstructs the mobility of labour as people of higher castes do not wish to work with those of inferior ones. Thus development of large-scale industry, which pre-supposes an easy mobility of labour, becomes difficult of achievement. Caste strikes at the very roots of the solidarity of labour. It creates heterogeneous groups in factories and impedes the growth of strong trade unions necessary for industrial progress.

This crazy "patchwork quilt" of society is mainly responsible for political disunity in India. It has developed a superiority complex in the upper castes which has resulted in India's "Un-

1. R. P. Masani on Caste in *The Legacy of India*, Ed. Garratt, p. 150.
2. *Ibid.*, p. 151.
3. Risley: *People of India*, p. 270.
4. *Indian Philosophy*, Vol. I, p. 113.

touchables" and "Unapproachables". The idea of human dignity is wholly non-existent. It has created in the minds of high caste Hindus a contempt for manual labour which has meant great economic loss. The Hindu agriculturist is averse to the use of bone and fish manures on his lands for fear of losing caste. On similar grounds, the use of meat is forbidden for some people, thus giving them an unbalanced diet and a weak body. Constant intermarriages in the same small group have brought about mental and physical deterioration.

The caste system has obviously outlived its utility. It is now a positive and unmixed evil which must be remedied as soon as possible.

It is gratifying to note that the forces released in India by Western contacts have tended to destroy caste system. The urban areas have grown more liberal-minded due to influx of immigrants from all over the country. Inherited professions being incompatible with modern demands have been discarded. The educated classes have led the revolt against the bonds of caste. They scoff at caste taboos.

The railway and the bus have also worked towards the breakdown of untouchability. High and low caste people are all crowded together when travelling. They have perforce to eat and drink whatever is available on the railway platforms and in the company of all and sundry.

The reform movement in Hindu religion itself has worked in the same direction. The Arya Samaj, for instance, recognizes no caste, and approves of inter-caste marriage and inter-dining. In North India, Sikhism has been a very strong force to destroy social taboos and to recognize human equality. Islam has also contributed its share in undermining caste all over India. The part that Mahatma Gandhi played in fighting untouchability fitly deserves to be called revolutionary.

Under the new Indian Constitution, the welfare of the Scheduled Castes, Scheduled Tribes and other Backward Classes has been made the special concern of the State. The Constitution prescribes protection and safeguards for these classes with a view to promoting their educational and economic interests and removing their social disabilities. A sum of Rs. 114 crores has been provided for promoting the welfare of backward classes in the Third Plan. The very concessions granted to these classes tend to perpetuate these distinctions. More effective steps and a radical policy are needed to root out the caste system.

Joint Family System

The typical joint family consists of father, his sons and grandsons, together with the corresponding womenfolk, until some of them are married off and enter into other joint families. Jointness is the normal condition of Hindu society but partition can be effected on demand. So long as the family is undivided, it pos-

sesses a common kitchen and common property. The earnings of all the members are put in a common pool out of which the needs of every member are met. The seniormost member of the family controls and conducts affairs with the advice of others but his voice is final.

Merits

The world is tired of uncontrolled capitalism. Eyes are set towards the experiment of socialism in Soviet Russia. The theory is not new to the world. The germ is contained in the Hindu joint family, where every member works according to capacity and consumes according to need. The Russian model is not suited to many countries, but the Indian institution is of great interest. It brings no travail, no bloodshed in its train and yet aims at providing for everybody. It promotes the spirit of co-operation and unselfish service. The family is the nucleus and its motto is "All for one and one for all."

The joint family system guarantees economic security to all. A minimum subsistence is assured to all members of the joint family including the aged, the maimed and the infants.

The system is also economical. Duplication of household equipment is avoided. One household functions—where, in the absence of joint family system, there would have been several instead.

The joint family system is a sort of insurance against unemployment. If somebody happens to be unemployed, he is supported by the joint family. The family business also provides employment to all grown-ups in the family.

The evil of uneconomic holdings does not arise so long as the family landed property remains undivided. It is the spirit of individualism that has brought about the partition of ancient holdings. The joint family system makes possible "joint farming of the inheritance without partition." Co-operative farming, however, can serve the same purpose, and is preferable since it does not involve the disadvantages of the joint family. Thus the evils of sub-division and fragmentation are avoided.

Demerits

But the system is not without its demerits. The junior members of the family feel no responsibility and are apt to be improvident. They borrow recklessly on the credit of the family. At the time of a marriage or death in the family and at other religious ceremonies, there is a great deal of waste, often resulting in indebtedness.

As food and dress are assured without work, the joint family system is bound to breed a good many drones. In fact that is the strongest argument against any form of communism. The total family income has to be spread over a large number of claimants.

The power to save is impaired and the accumulation of capital is hindered. Besides, the burden of a large family deters a man from pioneering new enterprises. In such surroundings individuals cannot develop initiative.

The high birth-rate in India is partly explained by the existence of joint family system since there is no check on the number of children for reasons of prudence.

Conclusion. The joint family system is disintegrating rapidly—much more rapidly than the caste system, due to the increase of population and the spread of Western culture. The growth of new towns has also weakened the system by drawing people from the rural areas. The development of means of transport like railways has facilitated movement from homes and has thus disrupted the joint families. The old respect for the head of the family is disappearing while the bonds of family discipline are loosening. But the principle of co-operation underlying the system is a valuable one and should be used through the agency of multi-purpose societies.

Laws of Inheritance and Succession

Succession among Hindus is governed by the **Mitakshara** and **Dayabhaga** schools of law. The Dayabhaga is peculiar to Bengal, the Mitakshara is prevalent in all other parts of India.

(i) **The Mitakshara system.** Under this system the ancestral property is owned and enjoyed by all members of the family as a body. The head of the family is only a manager for the time being. He has no right to dispose of any property without the consent of all the male members. In case of a member's death there is no succession to his share. It automatically becomes the property of the survivors. The family remains joint till there is partition of ancestral property. When such a thing happens the sons have equal rights with the father.

(ii) **The Dayabhaga system.** Here the head of the family is absolute owner in his lifetime and can dispose of the property as and when he likes. Under this law there is succession even in joint property and a dead member's share goes to his heir. There is no partitioning between father and son ; only between brothers.

Under both systems of law, females have no right in ancestral property. Recently, however, the Indian law has been amended so that daughters too have a right to father's property along with sons. **Both systems give the head of the family complete rights over self-acquired property.** The law of primogeniture does not obtain in India, except in the case of princes and some big zamindars. Their estates are not allowed to be partitioned and the eldest son succeeds to the whole property. But, generally, "corporate property is the rule in the East ; individual property in the West."

(iii) **The Muslim Law.** Islamic law gives a share of the property to males as well as females though not on an equal basis. But in actual practice in most States customary Hindu law is followed by Muslims. There is a desire among Muslims now to abide by their own law.

Economic Effects of the Laws of Succession. Both Hindu and Muslim schools of law are equitable. They make no distinction between brothers at the time of partition of property. Thus they save people from heart burning. Under these laws every one gets a start in life and a middle class is fostered. Such a middle class serves as the backbone of both society and government. The villages grow into self-reliant peasant proprietors who are the best defence against foreign invasion and internal disorder. It is good that an individual's share is small ; it provides an added incentive to hard work. The evils of capitalism are avoided and wealth is more equitably distributed.

In the reverse direction, it will have to be admitted that the law of succession leads to a number of evils. **Land gets subdivided into smaller and smaller pieces, till it is uneconomic to cultivate.** Sub-division brings fragmentation in its train—a worse evil. The laws encourage litigation which wastes time and money. They also hinder savings and discourage large-scale enterprise.

Religious Influences

Religion has always been the dominant force in the life of people in India. It has greatly influenced the course of Indian history. There is no aspect of life here which has not been coloured and moulded by religion. The differences of sect and form are but ripples on the surface of waters that run deep. There is the same deep water, deep as the ocean of religion in the life of all Indians to whatever class or community they belong.

Very often religion is hidden under rituals, the true meanings of which are lost in the mists of time. Sometimes it degenerates into an opiate instead of serving as a stimulant to improve morale. Then it needs reform. But one of the central elements in Hindu religion has always been the attainment of mastery over "self" through renunciation. This is poles apart from the mastery over "matter" which the West has inculcated. The two recent world wars have utterly disillusioned the thoughtful and laid bare the inherent weakness of Western materialism. The progress of science has resulted in the invention of atom and hydrogen bombs and lodged a perpetual fear in the heart of man that one day all that has been gained will be destroyed. Only true religious spirit can save the world.

Indian religion has often been blamed for its unprogressiveness. The lack of progress on Western lines and the absence of a keen struggle for existence on the Western scale are alleged to be the results of Hindu spiritualism. But it is not spiritualism that is the root cause of poverty in India. True religion teaches

energetic endeavour for a better physical life. To be in the world, to serve it, to earn wealth to utilize it for the benefit of society and to attain a spiritual destiny—these are the ideals before an average Indian. To get the best of both worlds—the physical and the absolute—is not an impracticable end from the Indian viewpoint.

The causes of Indian poverty are different. India is a tropical country with virulent disease. The span of human life is short. Drought, famine and malaria have engendered a gloomy outlook. Foreign invasions and alien domination added to the depressing effect. It is these things that are responsible for the gloomy outlook of the masses in India, and not religion. It would perhaps be more correct to say that Indian religion is serving as a leaven to tone down Western materialism and working for the greater happiness of the many.

Conclusion. The peculiar social organisation and institutions of a country exercise tremendous influence on its economic life. It is true of India in a much larger measure. The caste system has hindered mobility of labour and large-scale production. The joint family system has militated against the accumulation of capital by thinly spreading the family income. It has killed initiative and enterprise. The laws of inheritance have resulted in sub-division and fragmentation of holdings which have proved to be the bane of Indian agriculture. Prevalence of status and custom has determined the relationship between different classes. Early and universal marriages, joint family system and social ban on widow re-marriage have been the dominant influences on the increase of population in India. **Purdah** system is responsible for the loss of working capacity of millions of women. Costly rituals have meant a great national loss. The philosophy of **karma** has weakened the economic motive. These and many more have been the economic consequences of the peculiar social institutions of India.

CHAPTER V

A General Survey of Agriculture

Importance of Agriculture in Indian Economy

After studying the physical and social background of India, we are now in a position to discuss her economic problems. They are of all kinds—agricultural, industrial, monetary as well as those pertaining to banking, trade, transport and prices. Let us start with agriculture. The importance of agriculture to India can hardly be exaggerated. It is the very backbone of her economic system and is her premier national key industry. About 70% of the people are dependent on it for their livelihood. If we add the number of persons indirectly depending on agriculture, the proportion will rise to more than three-fourths. It supplies the people with food as well as raw materials for their industries. It also provides the bulk of India's exports and thus enables the people to purchase plant and equipment as well as consumers' goods from foreigners. It is a source of employment for the trading classes and revenue for the Government. Thus the prosperity of agriculture is synonymous with the prosperity of India.

Agriculture is assuming even greater importance with the passage of time. Internal demand for food is on the increase as a result of growing population and rising standard of living. Not only do we need more quantity of food, but also a better quality and greater variety in it. Besides, a very ambitious programme for industrial development has been laid down for our Five-Year Plans. Indian agriculture will have to meet the need of more raw materials, of a better quality. Prosperous agriculture means greater purchasing power with the farmers with which to buy manufactured goods. Further, our cash crops will have to provide funds for purchase of heavy machinery and equipment from abroad.

Agriculture contributes no less than one-half of the total wealth produced annually in the country. Agriculture accounts for 48.3% of national income (1960-61). Agricultural products constitute the main staples of both internal and external trade. Among the items of exports, tea, oilseeds, tobacco and spices occupy prominent places.

Agriculture is the very foundation of financial stability of the Government. Agricultural prosperity enables the Finance Minister to balance the budget. A Finance member of the Viceroy's Executive Council once said : "Indian budget is a gamble in the monsoons", and monsoons determine the state of Indian agriculture. A bad year for agriculture is a bad year all round.

Agriculture has also great social and political significance for the country. Agriculturists are a sturdy, self-reliant class of people who are the backbone of the State. They are the best soldiers. With their fixed outlook and attitude, they exercise a great stabilizing influence in the social and political spheres.

It may also be noted, however, that the predominance of agriculture in India is also a serious drawback. This is one of the fundamental causes of Indian poverty and her economic instability. This is due to the fact that our agriculture is far from prosperous and is run on very primitive lines. Inefficiency of Indian agriculture can be seen from the fact that in India 706 persons out of every 1,000 are engaged in producing food for themselves and they produce a small surplus which is utterly insufficient for the rest. In U.S.A. 128 persons produce food not only sufficient for everybody but which also leaves a margin for export.

Overcrowding is one of the major problems of Indian agricultural economy. There has been very little change in the occupational structure, despite some improvement in industry. In 1901, only 67.4% of the people were busy with the production of raw materials. In 1921 the number increased to 3% and 66% were shown to be doing this work in the Census Report of 1931. In 1951, 70 per cent were dependent on agriculture. The same is the position as revealed in 1961 Census. The gravity of the problem of increasing pressure of population on land is also apparent from the fact that whereas 17.5% people were employed in industries in 1911, only 16.3% were so in 1931, 10.5% in 1951, 10.6% in 1961. The 1951 Census Report definitely shows that there has been a general increase throughout the country in the number of cultivators and cultivating labourers per 100 acres. The Census Report of 1961 also says that cultivators in rural areas have shown substantial increase, both absolute and comparative. Obviously the increasing numbers have not been absorbed in industries and handicrafts and have been thrown upon agriculture. The pressure on land has thus resulted in the serious problem of subdivision and fragmentation.

Problem of Agricultural Production

Of the total sown area (including area sown more than once), nearly 82% was under food crops and the remaining 18% under non-food crops. This indicates the unsatisfactory state of our economy. Three-quarters of our population and four-fifths of our cultivated area are busy producing food but still the food production is not enough for the people and India has had to import huge quantities of foodgrains in recent years.

The area and yield of principal crops in India in 1950-51, 1960-61 and 1962-63 are given on page 64 to show trends in agricultural production.

Area and Production of Agricultural Commodities

Commodity	1950-51		1960-61		1962-63	
	Area (Hectares)	*Production (Metric tons)*	*Area (Hectares)*	*Production (Metric tons)*	*Area (Hectares)*	*Production (Metric tons)*
FOODGRAINS						
Cereals						
1. Rice ...	30.519	23,542	33,567	34,198	34,787 (34,934)	32,018 (31,914)
2. Wheat ...	9,759	6,391	12,969	10,992	13,458	11,132
3. Jowar ...	15,514	5,870	17,273	9,363	17,748 (18,021)	9,339 (9,621)
4. Bajra	9,260	2,835	11.424	3.228	10,712 (10,800)	3,862 (3,892)
5. Maize ...	3.262	2,046	4,360	4,015	4,579 (4,607)	4,520 (4,578)
6. Ragi ...	2,206	1,544	2,322	1,681	2,331 (2,316)	1,914 (1,891)
7. Barley ...	3,181	2,251	3,223	2,866	3,034	2,474
8. Small Millets ...	5,416	2,278	4,897	1,975	4,683	1,841
Total Cereals ...	79,117	46,757	90,035	68,318	91,334	67,101
Pulses						
9. Gram ...	8,295	3,726	9,407	6,324	9,194	5,727
10. Other Pulses ...	11,872	4,433	13,798	6,328	14,051	5,924
Total Pulses ...	20,167	8,159	23,205	12,652	23,245	11,651
Total Food grains (Cereals and Pulses)	99,284	54,916	113,240	80,970	114,579	78,752

NON-FOODGRAINS								
11. Sugarcane ...	1,707	5,705	2.343	10,615	2,291		9,371	
12. Oilseeds ...	10,727	5,158	13,511	6,623	14,518		6,875	
(*i*) Groundnuts (nuts in shell) ..	4,494	3,481	6,257	4,461	6,640	(6,864)	4,593	(4,821)
(*ii*) Rape & Mustard ...	2,071	762	2,871	1,356	3,128		1,300	
(*iii*) Sesamum ...	2,204	445	2,169	321	2,424		453	
(*iv*) Linseed ...	1,403	367	1,794	395	1,883		427	
(*v*) Castor seed ...	555	103	420	90	444	(438)	103	(101)
13. Cotton (Lint) ...	5,883	2,874	7,637	5,324	7,973		5,247	
14. Jute ...	571	3,309	612	1,140	848	(851)	5,410	(5,449)
15. Mesta ...	...	...	279	1,140	348	(379)	1,534	(1,697)
16. Tea ...	317	279	331	321	...		344	
17. Coffee ...	93	19	120	68	...		56	
18. Rubber ...	69	16	130	25	...		...	
19. Tobacco ...	357	261	400	312	430		367	

Low Yield

One striking feature of our agricultural production is that the yield per acre is extremely low. There are a number of causes which are responsible for this.

Causes of Low Yield. The main factors responsible for low agricultural yield in India are:—

(i) absence of double-cropping,

(ii) poor livestock and ineffective implements,

(iii) rural indebtedness,

(iv) over-exploitation of soil by continuous cultivation and inability of peasant to purchase fertilisers,

(v) lack of adequate irrigation and uncertain rainfall,

(vi) oppressive land tenure, and

(vii) sub-division and fragmentation of holdings.

These causes suggest the remedies. Every effort has to be made therefore to increase the yield per acre. This can be done by :—

(i) better rotation of crops,

(ii) use of improved seeds,

(iii) using adequate manures and fertilisers,

(iv) provision of adequate irrigation facilities, and

(v) fighting pests and diseases and the menace of wild and stray animals.

The case of Japan is very instructive for India. It is a country of small cultivators who, like Indian peasants, use few mechanical methods. The problem of irrigation, however, is not so difficult there as in India. The high yield **per acre** in countries like U.S.A. is obtained from holdings of hundreds of acres by modern machines and through scientific methods of cultivation. This high productivity **per acre** also implies high productivity **per man.** But when the population lacks alternative productive avenues of employment as in India, it is better to aim at high productivity **per acre**, even though it involves engaging a large number of workers. So long as the present pressure of population on land continues, intensive methods of cultivation should use less capital and more labour.

There are immense possibilities for intensive farming in India. Not only the yield is low for India as a whole but there are wide regional variations. For instance, yield of rice per acre varies from 1,215 lbs. in Coorg to 325 lbs. in Vindhya Pradesh ; of wheat from 943 lbs. in Punjab to 261 lbs. in Hyderabad ; of gur from 6,452 in Madras to 2,352 in U.P. and of cotton from 243 lbs. in the Punjab to only 30 lbs. in Orissa and 45 lbs. in Hyderabad. These differences are partly due to natural factors, but they are also due to differences in the methods of cultivation.

Some of the **Krishi Pandits** have already achieved fine results and competitive production of various commodities per acre has been beyond expectations.

Our Agricultural Problem

All under-developed countries are predominantly agricultural, but their agriculture suffers from two fundamental weaknesses : (a) there are too many people tied to the soil for lack of alternative employment and (b) productivity is extremely low. There is consequently appalling poverty among the rural population. The vast majority of rural population of India lives on the margin of subsistence. The various estimates of per capita income in rural areas put it at a very low level. According to Dr. Rao, while income per head in urban areas in 1931 was Rs. 162, in rural areas it was only Rs. 48 p.a. According to calculations on their findings of the National Income Committee, in 1951, the income of an agriculturist comes to Rs. 180 and of a person engaged in other pursuits to Rs. 416. The only method to improve rural income is to increase agricultural production.

Looking at the problem from another angle it is seen that India is faced with a serious shortage of food. This shortage was first realised during war days, due to the stoppage of imports from Burma. In spite of the "Grow More Food" campaign, this shortage has persisted. The population has been growing at a rate of 45 lakhs a year. Even though during the last 60 years area under food crops has been roundabout 80% of the total area, it has not been possible to feed the population even at the current low standard of living. As a consequence, large quantities of foodgrains have to be imported from abroad.

The only way out is to prepare and implement a considered programme for agriculture for the country as a whole on a planned basis The present maladjustments are not entirely due to the abnormal conditions prevailing during the war and post-war years. The economy has failed to meet the needs of a rapidly growing population. Besides, as said before, agriculture is 'a way of life' in India. Farming is not of the economic type. It is mainly subsistence farming and there is no margin of saving. We may suggest :—

Firstly, the actual tiller of the soil must have the incentive to put in his best efforts. This means that he must be sure of reaping the full reward of his labour. Thus either he should own the land that he cultivates or he should be ensured his holding for a sufficiently long period of time. Legislation is necessary to protect the interests of the tiller.

Secondly, the unit of cultivation must be increased. Mere consolidation of a small holding is not enough. For scientific cultivation large holdings are essential. One method is abolition of private ownership of land and its collectivization. This involves insuperable difficulties under Indian conditions where

private property is greatly cherished. Another and more practicable method is co-operative farming.

Thirdly, steady prices at an economic level should be assured to the cultivator. Too many variations in agricultural prices are discouraging for improvement in cultivation.

Fourthly, new employments must be found for the surplus population both in villages and towns. This implies a policy of all-round industrialization both on the small and large scale.

No agricultural progress is possible without a simultaneous development of industry in the widest sense of the term. With industrial and agricultural development is closely connected development of transport, trade, banking, currency, etc. All must be tackled simultaneously for any results to be achieved.

In order to feed our people and supply the raw materials to our industries, we must explore all possibilities of extensive cultivation and also resort to more and more intensive cultivation. There are three possibilities of extensive cultivation : (a) To extend cultivation to lands classed as culturable waste estimated at about 50 million acres. (b) In addition, there are not less than 10 million acres which were cultivated at one time but are now so deeply infested with weeds that they are no more under the plough. There is a possibility of reclaiming them or a part of them for cultivation. (c) There is also a third type of waste land, called **Usar** land, saturated with alkaline salts. They can also be treated so as to render them fit for cultivation.

It has been suggested that some forest area should be cleared and brought under cultivation. But our forest area is only 22%, whereas the Forest Policy Resolution of May 12, 1952, suggested that India as a whole should aim at maintaining 33% of its total area under forests. Hence the possibility of extending cultivation to forest areas must be ruled out.

The weed infested lands are first-class grain-producing areas. **Kans** and **Hariah** or **Dub** are the weeds which have made these areas uncultivable with indigenous implements. If the estimated 10 million acres could be reclaimed it would add 3 million tons annually to the food resources of the country. The International Bank sanctioned a loan of $10 millions for the purchase of 375 heavy tractors and other equipment from the U.S.A. They have been working in units of 15 each in U.P. and Madhya Pradesh. The Punjab was also allocated a share. Workshops were established and skilled staff trained to repair them.

In spite of the Centre's readiness to give assistance in the work of reclamation of waste lands, the States have not shown much enthusiasm. During the First Five-Year Plan, only 27.8 lakh acres were reclaimed against a target of 7.1 million acres. The target for the Second Plan was 1.5 million acres and for the Third Plan 3.6 million acres.

"Current fallows" cover nearly 20% of the net sown area.

Such lands are in a needlessly high proportion. This reflects the primitiveness of agricultural methods. With scientific manuring and proper rotation of crops this area could be saved from being wasted. In Western countries fallow has been replaced by inter-tilled row crops like corn, potatoes and roots. This will involve a change in the character of our agricultural economy allowing more specialization of crops. Four million acres will be restored to cultivation from fallows during the next five years.

There is a great scope for intensive cultivation too. The cultivated area per head was .84 acre in 1951. In Japan, the cultivated area per head comes to less than one-third of an acre. But as the productivity per acre in Japan is much higher than in India due to the application of intensive method there is not such a big deficit in food there. Yield per acre in India is almost the lowest in the world, in spite of an improvement in recent years. The table[1] below makes this point clear.

	Commodity	Country	Average 1949-51	Yield per acre in lbs 1954-55
1	Paddy	India	961	1100
		Pakistan	1,261	
		Burma	1,240	
		Egypt	3,333	
		Japan	3,533	
2.	Wheat	India	586	713
		Pakistan	833	
		U.S.A.	949	
		Australia	979	
		Indonesia	1,050	
		U.K.	2,436	
3	Sugarcane (in terms of cane)	India	29,467	30,010
		Pakistan	17,496	
		Cuba	31,825	
		U S A	39,618	
		Indonesia	76,620	
		Hawaii	150,368	
4	Cotton (Ginned)	India	80	92
		Pakistan	184	
		U S A	274	
		U S S R.	285	
		Egypt	428	
5.	Jute	India	1,059	991
		Pakistan	1,163	

These figures are very interesting indeed. They clearly show how all countries produce more per acre than India.

1. Source. *Indian Agriculture,* Table 8-1.

CHAPTER **VI**

Our Food Problem

Nature of the Food Problem

Our food problem has, in recent years, exercised the minds of statesmen and economists in the country. We have lived from 'ship to mouth'. It is really curious, rather paradoxical, that a predominantly agricultural country, as India is, should be dependent for food on others.

The food problem in India has several facets. It is not merely a question of shortage, or a quantitative question ; it is also a qualitative one. Not only have we less food but also an unbalanced food. It is also an administrative problem, i.e., the food produced in the country is not properly distributed and made the best use of. At bottom, our food problem is an economic one.

To take the **quantitative aspect** first, the Famine Commission of 1880 reported an annual surplus of 5 million tons of foodgrains in India. For some time perhaps, improvement in irrigation maintained some sort of correspondence between increase in population and the available food supply. After the first three decades of the present century, population index in 1931 was 117 (Base 1901), whereas the cultivated area index was 116. Population had thus overtaken the food supply and was leaving it behind. During the decade 1931-41, the situation further deteriorated. Area under foodgrains increased by 1.5% whereas the population increased by over 15%.[1] Population had now left the food supply far behind. India had become a net importer of food and imported annually between 1½ and 2 million tons. The gap between demand for and supply of foodgrains has been continuously widening. First the separation of Burma and later creation of Pakistan made India dependent on food imports. Food imports for the six years 1948-53 cost Rs. 965 crores. Food imports for 1962-63 were valued at Rs. 152.39 crores.

But the **qualitative aspect** is no less important. In India peo-

1. *See* Nanavati and Anjaria: *Indian Rural Problem*, p. 53.

ple are not only under-fed, but they are also under-nourished, because their diet is unbalanced. Sir John Megaw's inquiry revealed that only 30% people in India were adequately nourished, 41% were poorly nourished, and 20% were very badly nourished. According to the surveys conducted by the Nutrition Advisory Committee, in 100 typical rural and urban groups, it has been found that "calories intake of some 30% of families is below requirement and that even when the diet is quantitatively adequate it is most invariably ill-balanced containing a preponderance of cereals and insufficient 'protective foods' of higher nutritive value.

The necessary consequences of malnutrition are high mortality rates, especially among infants and women of child-bearing age, the prevalence of food-deficiency diseases like beri-beri, rickets, and various forms of anaemia and most other ailments known to the doctors, stunted growth and inefficiency, short duration of life, etc.

The problem of food shortage has been rendered more acute by administrative inefficiency. The Government officials have been too soft and the procurement machinery failed to produce the desired results. All this resulted in unnecessarily high food prices. Our food problem would not have been so serious if administratively it had been handled with speed, efficiency and honesty.

But, as we have already said, our food problem is at bottom an economic one. In essence it is money famine rather than food famine. The Indian masses lack adequate purchasing power, and no wonder they live in a state of semi-starvation. In tackling the food problem, we come face to face with the formidable problem of the poverty of the Indian masses.

Grow-More-Food Campaign

The Bengal Famine of 1943 awakened India to the dangers of serious food shortage in the country and the urgent necessity of making it up. Accordingly, Grow-More-Food Campaign was launched in 1943. The measures under this campaign included (a) increase in area under food by bringing new land under cultivation, double cropping and by diverting land from non-food crops to food crops, (b) improvements and extension of irrigation by canals, wells and minor irrigation works, (c) extended use of manures and fertilisers and (d) increase in the supply of improved seeds.

The G.-M.-F. Campaign did not produce the desired results on account of several difficulties and bottlenecks. The campaign covered only 80 lakh acres out of a total of 16 crore acres under food, i.e., just 5%. There was no plan and no target. Referring to the Grow-More-Food Campaign, the Food Grains Policy Committee (1947) said that "the measures which were undertaken were doubtless in the right direction, but the objectives were too diversified, the efforts were inadequate and in most areas the necessary vigour and drive were lacking." In their opinion, a

radical revision of approach and a new production policy were needed to achieve the desired results.

Food Self-sufficiency Drive (1949-52). Accordingly, a comprehensive 5-year plan of food production was chalked out in pursuance of the recommendations of the Food Grain Policy Committe, 1947-48. This phase may be called Food Self-sufficiency Drive 1949-52.

The main planks in the plan were : (1) Grow-More-Food works consisting of surface production wells, irrigation tube-wells, pumping installations, tanks and channels, and improvement works including drainage, bunding and reclamation: and (2) Grow-More-Food supplies, consisting of manures, including chemical fertilisers, oil-cakes, green manures, improved seeds, better implements including mechanical equipment.

Among the shortcomings of the programme the G.-M.-F. Enquiry (Krishnamachari) Committee (1952) pointed out that changes were made in the main objectives placed before the country from time to time. There was first the self-sufficiency in foodgrains. Then came the integrated policy for agricultural production. This orientation gave rise to differences of opinion and controversy as regards priority between foodgrains and industrial raw materials. It was also not realised that all aspects of village life are inter-related and improvements could not be split up into a number of detached programmes operating independently. The whole campaign was organised on a temporary basis; its execution was entrusted to staff hurriedly got-together, each set being responsible for a different programme. The co-ordination between the various staffs was imperfect. Besides, the finances and supplies in the shape of fertilisers, good seeds, etc., available for the campaign could suffice only for a small proportion of the cultivated area. The movement did not arouse nation-wide enthusiasm and did not become a mass movement for raising the level of village life.

On the other hand, it must be admitted that the proportion of the expenditure which was devoted to works of permanent improvement—minor irrigation works, wells, land reclamation, etc., was bound to make a permanent contribution to the food problem and the percentage of this expenditure steadily increased from year to year. Good results were achieved in the production of cotton and jute. Cotton production increased from 21.9 lakh bales in 1947-48 to 33 lakh bales in 1951-52 and jute in the same period from 16.6 lakh bales to 46.8 lakh bales.

Food Drive under the Five-Year Plans

In the First Plan the campaign was reoriented on the lines suggested by the Krishnamachari Committee, and the highest priority was accorded to raising food production. The target of additional production was put at 7.6 million tons by the end of 1955-56. The most important change in the approach to raising

output was the inauguration of the **Community Development Projects** and **National Extension Service** in selected areas and the concentration of expenditure and effort on them. Large sums were provided for irriagtion projects, both major and minor works, elaborate land reform legislation was enacted and concrete steps were taken to increase the production of fertilisers, and the availability of agricultural finance and supplies. Favourable monsoons in three years of the First Plan and the development measures combined to increase foodgrain production from 50 million tons in 1950-51 to about 65 million tons in 1955-56. The foodgrains target of the Plan was thus exceeded. It appeared that the battle for food had been won. But the improvement proved to be of a temporary nature; and a large part of the credit for it must go to favourable weather conditions.

In the **Second Plan**, the success achieved in the First Plan induced complacence, so that food production was not given the importance it deserved. The Plan provided for an increase in food production of 10 million tons—from 65 million tons to 75 million tons. The approach remained the same. Later on it was realised that demand for food was increasing faster than the planners had foreseen. Accordingly, the target of output was revised upwards to 80.5 million tons which was achieved.

In the **Third Plan**, central emphasis has once again been laid on food production and the target for 1965-66 has been put at 100 million tons. The approach remains broadly the same. Greater attention has of course to be placed on its implementation.

Recent Food Situation

The country's food problem still defies solution. A time came when it seemed we had almost solved it and reached the goal of self-sufficiency. In 1955-56, food imports were valued at Rs. 29 crores, whereas in 1951-52, they were valued at Rs. 228 crores. It was remarked that "food shortage in India is a thing of the past now." Really we were not yet out of the wood to be able to say that. There is no doubt that the elaborate machinery of food controls had been completely dismantled and 'victory on the food front' was widely acclaimed. Instead of heavy imports, exports of wheat flour and superior rice were permitted. By August 31, 1954, sales of 43,000 tons of rice had been actually registered with the export control authorities.

But we can now say that the food problem had not yet been solved. It was too early to proclaim the victory on the food front. In recent years, the country has been again facing a serious food situation and the food problem once again became the national problem. The gap between requirements and domestic supply has been widening. The shortfalls in the targets of food production have been due to failure of rains and floods, non-implementation of some schemes, non-availability of fertilisers in adequate quantities and also the time-lag in the creation and actual

utilisation of irrigation potential. At times the shortage was aggravated by hoarding and speculation.

The problem of food is really a problem of distribution. The marketable surplus in the output of foodgrains does not flow to the mandis in sufficient quantities and from there to the retail shops from which the consumer makes purchases. That is why even in a year of record production prices did not come down. The production in 1958-59 of 77.3 million tons of foodgrains created a new record. But still the prices ruled high. It is, obviously, a man-made shortage and is due to defective distribution machinery.

In 1959-60, foodgrains production received a set-back declining to 75.9 million tons. In 1960-61, foodgrains output achieved the target for the Second Plan, i.e., 80.97 million tons. But the output in 1961-62 again declined to 79.8 million tons and in 1962-63 77.5 million tons. The yearly output of foodgrains has been insufficient to meet the requirements of the people. Hence it has been necessary to continue imports. The Indo-U.S. Food Deal of May 1960 according to which India would import 17 million tons of food during the next four years, eased the situation somewhat. It was an insurance against deficits for four years. In 1959 we imported 3.8 million tons and in 1960 (January to November) 4.4 million tons. In 1959-60, food imports cost us nearly Rs. 181 crores, in 1960-61 Rs. 178 crores, in 1961-62 Rs. 147.07 crores, in 1962-63 Rs. 152.39 crores and Rs. 163 crores nearly in 1963-64. In terms of quantity, India imported 4.6 million tons of foodgrains in 1963 as against 3.64 million tons in 1962. In 1964 it is expected to touch the 5 million ton mark. In seven years 1956-57 to 1962-63, the Government of India subsidised the sale of foodgrains to the extent of Rs. 146.48 crores. This gap has to be bridged. India is negotiating (in 1964) a new agreement with the U.S. for import of 15 million tons of wheat and rice during a four-year period and for extension of the existing one by about a year.

Throughout 1964, the food situation has been causing grave anxiety since the prices have been soaring higher and higher. The index of rice prices reached 139 by the end of last week in July, as against 127 a year ago and wheat prices rose by more than 28% as compared with prices a year ago. The public is seriously agitated and the government too seems to be very much worried. As a measure of immediate relief it was decided in August 1964 to fix maximum prices for rice and wheat. This will ensure price stability in foodgrains prices. All the available stocks in the country were to be mobilised. For this purpose the producers, dealers and even consumers were asked to declare stocks above minimum permissible levels. In order to prevent the same set of people from drawing rather freely from fair price shops an informal kind of rationing was introduced in urban areas. The government can hold the price line if it can assure adequate stocks in the fair price shops. It was also decided to fix consumer and producer prices for the next harvest. These are short-run mea-

sures. The long-run measures relate to the increasing of production by intensifying efforts at agricultural improvements through increased water supply and supply of fertilisers and improved seeds.

It seems that for some years more we shall have to make determined efforts to bridge the gap between domestic production and domestic requirements of foodgrains. Freedom from foreign food must be won. In the present day uneasy world dependence for food on foreign countries in dangerous.

Solution of the Food Problem

Food problem is a complicated problem. There is no simple or sovereign remedy for its solution. It has to be attacked on several fronts. The following are some of the measures that can be adopted to solve the food problem :—

(1) The ultimate solution of the food problem lies in **increasing agricultural production.** This must therefore be the main remedy for the solution. The other measures for tackling or easing the problem we shall consider subsequently.

For stepping up agricultural production, the following methods may be followed. These are too well-known to be described in detail ; we shall, therefore, only enumerate them : (i) organisation of **Panchayat Samitis** and fixing the responsibility for augmenting production on them ; (ii) **organisation of service co-operatives** and their development into **joint farming co-operatives** wherever feasible; (iii) increasing use of better farming implements; (iv) increasing use of better seeds; (v) the use of green manures and fertilizers ; (vi) small and medium irrigation works; the adoption of better agricultural practices, like the Japanese method of paddy cultivation. Apart from these and similar methods of increasing the productivity of land, the implementation of land reform legislation enacted in recent years all over India is very necessary. Uncertainty and suspense created by land reform legislation have been an important factor impeding food production in the country.

(2) **Better Administration and Organisation.** The problem of agricultural production in India is essentially that of better organisation and better administration. One of the main difficulties of the Indian cultivator is that of securing supplies of various essential services **in time** and **in adequate quantities.** His enthusiasm for greater production is severely shaken when he finds that he cannot get good seeds, chemical fertilisers, improved implements and insecticides in time either through the village co-operative or through the community development staff. It is, therefore, imperative that earnest efforts be made to improve and streamline the organisational and administrative structure and bring about greater co-ordination between agricultural, irrigation and community of development staffs.

In this connection the Nalagarh Committee has made several

recommendations which have already been accepted by the Government of India and the Planning Commission. But more important is their expeditious implementation by the State Governments.

(3) **Imports from Abroad.** In order to build up buffer stocks and stabilise prices and to overcome the psychology of shortage and scarcity, the Government should plan for greater imports of foodgrains. In this regard the **Indo-U.S. Food Agreement** (in May 1960) is worthy of mention. The U.S. Government agreed to supply a total of 16 million tons of wheat and 1 million tons of rice to India over the next four years. But since this is largely in respect of wheat, the Government should enter into similar agreements for rice as well with rice-exporting countries. A similar agreement was again going to be signed.

(4) **Artificial restrictions on the internal movement of foodgrains should be relaxed or removed.** In view of the rising prices during the past four-five years, the Government imposed distribution controls in the form of "**Food Zones.**" The whole country was divided into different food zones for wheat, rice, and some other grains. The movement of the grain concerned is free within the zone, but is not allowed as between different zones. This scheme is generally thought to have distorted the rational structure of prices of foodgrains as between deficit and surplus areas and also to have created the psychology of shortage and scarcity. The prices have also continued to rule high despite this scheme and large-scale smuggling has been going on as between zones. At least now with improved internal production and the Indo-U.S. deal for large food imports for four years, this zonal system is doing more harm than good and should, therefore, be abolished. That will ease the food problem.

(5) Another short-term measure suited to occasions of high food prices resulting from too much of speculations in foodgrains is that stringent restrictions should be put on **speculation in these commodities** and the Reserve Bank of India should impose curbs on bank credit used for the purpose of holding excessive stocks of foodgrains. This policy has been followed a number of times in recent years.

(6 & 7) The other two remedies suggested are long-term ones. The quickly rising trend in **population should be checked;** there is, therefore, the need for strengthening the family planning movement. Efforts should also be made towards **changing the food habits** of the people who should be urged to make their diet balanced by taking less of cereals and more of non-cereal food, like vegetables, fruits, meat and milk. Of course food habits cannot be changed overnight and, besides, protective foods being expensive are beyond the reach of the common man. Food habits will change as the country develops and income of the people rises.

Circumstances have once again forced the country to resort to rationing. For the last few years, agricultural output has been

stagnant at 80 million tonnes. On the other hand, there have been increases in both the rural and urban population. The increased money incomes generated mainly in the cities have further complicated the problem. The natural instinct of hoarding in the midst of psychology of shortages has, on the one hand, cut into the available marketable surplus and intensified demand on the other. There seemed to no escape from rationing and the Prime Minister asked the Chief ministers in October 1964 to introduce statutory rationing in cities with a population of over a million and to arrange the summary trial of traders who sell foodgrains at higher prices than the officially fixed prices. This solemn resolve reflects the gravity of the food situation.

To secure the sale of essential commodities at prices fixed by the Government an Ordinance was promulgated on November 5, 1964 for summary trial of unscrupulous traders and abetting public servants. The Ordinance provides for deterrent punishment to traders indulging in anti-social practices like hoarding and profiteering.

A Bill providing for the setting up a Food Corporation of India was moved in the Lok Sabha on November 20, 1964. The Corporaton will have an initial capital of Rs. 100 crores which will be wholly owned by the Government. It will however be an antonomous body and will concern itself immediately with trading in foodgrains. But its wider long-term objective. will include the building up of a buffer stock, handling food imports and provision of credit and supplies to farmers entering into arrangements with it. It is expected to serve as the main instrument to protect the consumer from the expectation and vagaries of the foodgrains trade. It will have wide operational scope both in respect of distribution and production of foodgrains in the country.

Making a total assessment of the food problem, the Asoka Mehta Committee said : "For an effective solution of the food problem, not only determined and all-out efforts to step up production have to be made, but the high rate of increase of population has to be checked. We, therefore, urge that a nation-wide campaign for family planning, enlisting the efforts and energies of social workers, particularly women, medical men, scientists, sociologists, economists, administrators and political leaders be launched.

Recent Rise in Food Prices

Several causes have contributed to the recent continuous rise in food prices. The main causes are :—

(1) The recent rise in food prices is basically the consequence of the **rate of economic development and the mode of financing**. The high level of investment expenditure on public and private sectors accompanied by deficit financing and large-scale credit expansion, has led to a general increase in the demand for foodgrains.

(2) **Greater velocity of circulation of money** than it was some years ago.

(3) **While the purchasing power among people has gone up, it has not been accompanied by corresponding increase in the supply of foodgrains.** On the contrary, in some years (1954-55, 1955-56, and again in 1957-58), there was a fall in production which led to a marked **shrinkage in their availability.** In contrast to the First Five-Year Plan, the Second Plan did not pay adequate attention to the food problem. In fact, it under-emphasised the importance of food supply in a developing economy. Though this was realised soon after, and food targets were raised subsequently, the higher target was not matched by increased outlay on projects which could help to raise food output.

(4) **Income-elasticity of demand of the people is very high,** because the vast majority of the people are under-nourished. The part of the huge investment expenditure being incurred in the country which goes to the low-income people is spent largely on foodgrains. There has thus been a sharp increase in demand for foodgrains, leading to increases in food prices.

(5) Further, there has been a **change in the pattern of food consumption of many sections** of the people. People who used to live on roots like tapioca or sweet potatoes are now transferring their demands to millets or coarse rice and people who used to take millets or coarse rice formerly are now gradually shifting over to superior kinds of rice and wheat

(6) The **increasing industrialisation and urbanisation** have increased the demand for marketed surplus and also have increased the demand for rice and wheat as against millets and minor foods.

(7) **Hoarding and profiteering.** In the short-run the more important factor that determines the price level is not production, but marketable surplus. The latter has in recent years been adversely affected by large-scale hoarding by growers and traders in anticipation of further rises in prices. According to the Asoka Mehta Committee's report most of the stock-building has been done by traders, but from 1956-57, there has been a significant change and a large part of such stock-building has been done by big and medium producers as well. The decline in marketed surplus of the producers is due to three reasons : (i) generally producers now consume more than before ; (ii) because of the prevalence of relatively higher prices of foodgrains, the producer now needs to sell less produce to meet his own need for cash to meet necessary commitments ; (iii) they hoard in anticipation of higher prices.

(8) **Persistent shortages in certain areas** of the country, owing to failure of crops through unfavourable weather condition, and reports of scarcity have also had a bullish effect in other areas as well and thus aggravated the rise in food prices.

The Third Plan commenced with a foodgrains stock of 2.8 million tons. This and the anticipated supply of 14.4 million (metric) tons of wheat under P.L. 480, it is stated, seems to give a reasonable assurance that the price of wheat, and to some extent of other foodgrains, will not increase significantly in the next few years if the monsoons do not misbehave. But the Planning Commission is wary and states that, with all the balances and safeguards, the possibility of considerable and serious increases in prices during the Third Plan cannot be entirely eliminated.

It is stated that the restraints on consumption implicit in the Plan may not always operate effectively. Furthermore, there are also doubts regarding the relative pace of growth of the various sectors which is vital to the maintenance of appropriate price relationships. The Plan envisages a certain balance between the rates of growth in various sectors, but a certain imbalance is almost certain to show from time to time.

It is, therefore, considered necessary to keep a close watch particularly on prices of foodgrains.

As is natural in a developing economy, the pull of demand factors shall be **upward** and the Planning Commission has recommended a **fiscal policy** which should avoid the creation of excess purchasing power through Government purchases. The **monetary policy** should be used to regulate the pace of credit creation through banks. In addition to this, the Planning Commission has suggested steps to discourage speculative accumulation of inventories and hoarding of commodities. From the point of view of low and fixed income groups, a reasonable stability of foodgrains policy is essential to the proposed price policy. But it will also seek at the same time to secure "right relationship" between various prices and to ensure that the producers get a "reasonable return".

Bearing these dual objectives in mind, the Third Plan has clearly declared that the farmer must be assured that the prices of foodgrains and other commodities he produces will not be allowed to fall "below a reasonable minimum" and at the other end, the consumers must be assured that they will not have to pay "excessively high prices" for foodgrains. This is the reason behind the proposal for fixing **floor** and **ceiling** prices which, it is stated, will have to be determined in each case in relation to the prevailing conditions.

The **key**, however, to the stabilisation of foodgrains prices is considered to be the Government's **buffer stocks** and its **open market** operations. The level of stocks, it is recommended, will have to be raised to about 5 million tons so that it could be possible to operate on them effectively.

It is further suggested that continuous purchases and sales by Government need to be undertaken flexibly on a wide front and at a large number of places. This is essential to ensure the impact of governmental policy on foodgrains prices.

It is also proposed that the Government should strengthen and reinforce its agencies at the retail stage, enlarging also the net-work of village co-operatives.

For the success of purchase and sales operation of stabilising prices and correcting seasonal and regional variations, **licensing and regulation** of wholesale trade is also considered essential. The extension of **State trading** in suitable directions is also recommended in this context.

CHAPTER VII

Systems of Land Tenure

The importance of the study of Land Tenure is three-fold: **Firstly,** it is necessary, from the point of view of the State, to locate the owner of land, because the State has to claim the land revenue from him. **Secondly,** the effects of the system of land tenure are very far-reaching on the productivity of land. For instance, an owner cultivates his land with greater zeal and is more anxious to introduce permanent improvements into it than a tenant who has to share the fruit of his labour with a landlord. **Thirdly,** the social organisation of a country, whether it is to be feudal, capitalist or communist, depends on its land tenure system. Land tenure determines the village institutions. This question of land tenure is invariably linked up with the political and social structure of a country. For agricultural advancement and for peace and contentment of the village community a just and sound system of land tenure is necessary. **The best tenure system is one which, on the one hand, encourages maximum production from the soil and, on the other, ensures the welfare and contentment of those who work on it.**

In a good system of land tenure there are no intermediaries between the State and the actual cultivator.

There are three main systems of land tenure prevalent in India :

(a) Ryotwari,

(b) Mahalwari, and

(c) Zamindari,

The Ryotwari system of tenure is found mainly in Madras and Bombay, the Zamindari in Bengal, Bihar and Orissa and the Mahalwari in U.P., Madhya Pradesh and the Punjab.

We shall now discuss each of these systems separately.

Ryotwari Tenure

This system was first introduced in Madras in 1792. Later it was extended to Bombay. "Under the Ryotwari system every

registered holder of land is recognized as its proprietor and pays (revenue) direct to Government. He is at liberty to sub-let his property, or to transfer it by gift, sale or mortgage. He cannot be ejected by Government so long as he pays the fixed assessment."

Some writers think that under the Ryotwari system, the State is the landlord. It is argued that (a) the State can resume the land if the cultivator does not pay the land revenue ; (b) the waste land belongs to the State; and (c) the cultivator has the option of leaving the land and the State resumes it.

There is not much substance in these arguments. We agree with Kale that the so-called "occupant" of "Government land" in Ryotwari areas "is as much a proprietor as the zamindar of Bengal, the only difference being that in the case of the latter, the land tax is permanently fixed, whereas in the former, it is liable to periodical enhancement."[1]

The main advantage claimed for this system is that there is no sub-infeudation and the cultivator is in direct relation with the Government. There are no intermediaries.

The system has all the advantages of the peasant-proprietor system as mentioned above. The peasant treats his land well. He makes all possible improvement and the 'magic of property turns sand into gold'. He works long and late. As a member of sturdy middle class he contributes to social and political stability.

Still there are some defects. (1) On account of sub-letting of land by the occupier, the advantages of the system have tended to disappear though conditions are not as bad in this respect here as under the zamindari system. (2) The land in these areas is passing into the hands of non-agriculturists and the number of landless labourers is on the increase. (3) The size of the holding becomes smaller. (4) The system is also defective in the method of assessment of land revenue. It leaves too much to the Settlement Officer whose estimates are based on mere guess work. (5) Lastly, individual assessment has destroyed the collective basis of village life and has led the decay of the village community.

Mahalwari Tenure

This system was first adopted in Agra and Oudh and was later extended to the Punjab. Under the Mahalwari system, land is held jointly by co-sharing bodies of village communities, the members of which are treated as "jointly and severally liable for the land revenue." The most typical of such tenures are found in the Punjab. Calvert writes, "Both in law and in practice the rights of the village community are carefully preserved: they are the owners of all the village 'common' or **shamlat**, with its trees, grass, etc., and they own the site of village buildings."[2]

1. Kale—*Indian Economics*, Vol. II, p. 781.
2. *Wealth and Welfare of the Punjab*, pp. 169-70.

It is a joint landlordism as distinguished from individual landlordism under the zamindari system.

Land in the joint villages may be shared in a variety of ways. Three kinds of villages may be noted:

(i) Ancestral villages, where the owners are descendants of the same ancestor. The share (**patti**) of each depends on his position on the genealogical tree. In some of these villages land is held jointly.

(ii) Non-ancestral villages, in which sharing takes place under the customary or **bhaichara** principles. The sharing takes place in various ways: in equal lots, according to the number of ploughs owned; or according to the share in wells. The land, however, is jointly owned.

(iii) Villages in which existing holdings are recognised as they are and there are no definite rules for sharing.

In the typical joint village, the owners are themselves the cultivators—peasant-proprietors. In some cases, however, land may be cultivated by tenants who pay rent either in cash or kind (**batai**). The best results of cultivation are obtained, however, when a peasant-proprietor possesses enough land to cultivate it with the help of his family. (For the merits of the peasant-proprietor system see the preceding section.) This would be an ideal system if the cultivators pooled their resources on a co-operative basis. Peasant-proprietorship dominates in the Punjab though the holdings are often too small. In such cases joint or co-operative farming is essential to get maximum yield from land.

In the case of some joint villages in Uttar Pradesh, certain overlords (Talukdars) appeared and original proprietary rights degenerated. In Madhya Pradesh the basis of settlement is akin to the Mahalwari system.

Zamindari Tenure

The fourth system of land tenure is the zamindari system. Under this system, one or more persons owned a village and were responsible for the payment of land revenue. Such villages were typical of Bengal. They also existed in Uttar Pradesh. A variety of landlord's estates were found in Bombay. In Madras also there were some big zamindars of the Bengal type, holding about one-third of the entire area. They have been almost entirely abolished and the discussion now is mainly of academic interest..

The zamindari system was the product of the British rule. The revenue farmers whose duty was merely to collect land revenue were given proprietary rights. This was partly due to the administrators' ignorance of Indian conditions and partly it was introduced for convenience of collecting revenue or to create interests whose fortunes were bound up with the British rule. The revenue was fixed in perpetuity in earlier settlements.

Whatever its original intentions, the system was not bene-

ficial. Combined with permanent settlement it robbed the State of its due share of the increasing net profits from land. From the point of view of the country it had no merit. Far from becoming enlightened leaders of the people, the landlords became absentee parasites. Thus the zamindari tenure proved harmful to the cultivators and stood in the way of agricultural progress. Frequent enhancement of rent and constant fear of ejectment discouraged all enterprise on the part of the cultivators. Agriculture suffered because the landlord's main concern was to get maximum rent without contributing anything to agricultural progress.

"The zamindar failed to provide for any effective means for the development of the resources of the land."[1] "He merely exploited every opportunity for realization of enhanced rent or other dues from the tenants." While Ryotwari tenure induced increased production, the opposite was the case in zamindari areas. All intelligent opinion was in favour of the system of peasant-proprietorship and against the **zamindari system.**

Intermediaries have by now thus almost entirely disappeared. Only a few pockets remain here and there. Action is being taken to do away with these too. The tenants are being helped to become proprietors.

Defects of Tenancy Cultivation

Under the zamindari system, tenancy cultivation is the rule, although it is not altogether absent in Mahalwari or Ryotwari areas. Both from the point of view of agricultural efficiency and social justice, tenancy cultivation is defective. Tenancy cultivation is much less efficient than cultivation by peasant-proprietors. "Give a man the secure possession of a bleak rock", wrote Arthur Young, "and he will turn it into a garden; give him a nine years' lease of a garden and he converts it into a desert." Calvert wrote: "Tenants generally take less care in preparing the crops", plough land less often, manure it less and use fewer implements upon it than owners. They grow less valuable crops, especially avoiding those requiring the sinking of capital in the land; they make little or no effort at improving their fields; they often keep a lower type of cattle; they avoid perennials and bestow no care on trees.[2]

Batai System. Here the tenant pays in kind. The results are still more unfavourable. The **batai** system of the Punjab, under which the customary rent used to be one-half (now one-third) of the gross produce, is not conducive to good agriculture. It is not in his interest to apply any dose of capital and labour the total return from which is less than twice enough to reward him. **Batai** rents are sometimes justified on the ground that they secure automatic adjustment of rent to price, and bring about good relations between the tenants and landlords. "But these advantages are

1. Bengal Land Revenue Commission Report, p. 37.
2. Calvert—*Wealth and Welfare of the Punjab*, pp. 206-7.

purchased at too high a price."[1] A survey of 97 tenants' farms in the Punjab showed that the actual worker got less than 18% of the net income, the rest going to the non-working owner who shoulders no risks.

Tenancy, however, is not always bad. "The best agriculture in the world is carried on under the tenancy system[2] (England)." This is because "an English landlord is his tenants' best friend and spends full one-third of his rental back on the land and its needs; most Punjab landlords levy double the rent than an England landlord would do and spend nothing back on the land."[3]

The system of land tenure, then, is not always the deciding factor. The character of the tenant and landlord matters much. When the tenant is easily ejected and no compensation is paid to him for the improvements he has made, he is bound to be indifferent. But when the tenant enjoys security and is eligible for compensation for improvements made by him, and when the landlord invests capital in the land, tenant farming can show better results than any other system. But if the choice is between a peasant-proprietor and an absentee landlord, the former is always to be preferred.

Land, its Problem and Policy

The Indian land problem is the most fundamental problem in Indian agriculture, rather in the entire economy of the country. The manner of its solution, therefore, will profoundly influence the pattern and course of not only agricultural development but of the entire economic and social reorganisation of the nation. The recent shortages in food showed that there was an urgent need for overhauling the system of land tenure. A mere tinkering with the problem would not cure the evil. In order to co-ordinate policies in different States an Agrarian Reforms Committee was appointed in 1948, "to examine and make recommendations about agrarian reforms arising out of the abolition of the zamindari system, in the light of the conditions prevailing in the different provinces" as well as "to report on co-operative farming and methods of improving agricultural production, the position of the small-holding sub-tenants, landless agricultural labourers and generally on improving the conditions of agricultural rural population." This Committee laid down certain principles which the Planning Commission accepted. Those principles are—

1. The agrarian economy should develop the farmer's personality;
2. There should be no scope for class exploitation;
3. There should be maximum efficiency of production; and
4. The scheme of reforms should be practicable.

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1. *Op. cit.*, p. 198.
2. Carver—*Principles of Rural Economics*, p. 126.
3. Calvert—*Op. cit.*, p. 298.

These principles involve certain major changes such as (a) abolition of zamindari, (b) reform of the condition of tenants through legislation, (c) an increase in the unit of cultivation, (d) consolidation of holdings, and (e) adoption of mechanized cultivation where needed, provision of water, electricity and finances for improvements.

Before we may embark on a suitable land policy it is necessary to understand the exact nature of our land problem. It is at bottom a question of land ownership and land use. Till recently, the bulk of the land belonged to the big landlords. A large number of intermediaries grew up between the State and the actual cultivator and they exploited the actual tiller. Even where the Mahalwari and Ryotwari tenures prevail, the rapidly mounting pressure of population led to the widespread extension of tenancy cultivation. The tenancy system has been of the worst type since the tenant enjoyed no security of tenure, had no incentive for investing capital and labour nor had he any capital to invest. Hence our land system was the most inefficient from the economic point of view (i.e., production) and the most unjust from the social point of view.

The excessive pressure of population on land, accompanied by decline of rural industries, gave rise to a large class of landless labourers in the country whose lot was much worse than the tenants'. Apart from economic destitution, this class suffered from social handicaps and disabilities. Thus there was feudalism at the top and serfdom at the bottom.

From the point of view of land management too, our land system could produce the poorest results. This is due to the tiny and uneconomic units of cultivation. The smallness and the fragmented nature of the farm bars effectively the way to all agricultural progress.

Hence our land system has been feudal and exploitative in respect of ownership and the most uneconomic and inefficient in respect of land use.

What is the solution or what is a suitable Land Policy? A suitable land policy should have two objectives:

(i) Economically it should ensure increased agricultural output and diversified rural economy.

(ii) Socially it should reduce disparities in wealth and income, eliminate exploitation, provide security for tenants and workers and finally promise equality of status and opportunity to different sections of the rural population.

It is necessary first to remove impediments upon agricultural production that arise from the character of agrarian structure. Then conditions must be created for evolving, as speedily as possible, an agrarian economy with high levels of efficiency and productivity.

The first step obviously is the elimination of parasitic intermediaries. This major reform has almost been effected. In most States, the State Government has taken over the intermediary rights.

Where tenancy is still to continue, tenants should be ensured security of tenure and fair rents. These measures are also being taken in most of the States.

As for substantial owners of land, the Planning Commission suggested that there should be an upper limit to the amount of land that one individual can hold. There can be a limit for future acquisitions as well as existing holdings. There should also be limit for resumption of land for personal cultivation. The excess over the prescribed limit may be used to enable the tenants to become owners. The States should also lay down standards of cultivation. Action on these lines has been taken in almost all States.

As for the small and middle class owners, arrangement should be made for finance, technical assistance and co-operative activity among them. Co-operative cultivation should be encouraged.

The landless agricultural workers should be settled on land acquired from large holders. Acharya Vinoba Bhave's movement of Bhoodan Yajna has in this connection special value. The best course will be to work out a system of co-operative village management.

The ultimate objective should be to introduce co-operative village management. It will increase the unit of land management and will thus fulfil the basic condition for increasing agricultural production. It will also create condition of equality for all sections of the village community and thus reduce inequalities of wealth and income and eliminate exploitation. It will also diversify rural economy and expand rural employment.

The Panel on Land Reforms has made, among others, the following recommendations:

(1) All cultivators should be under an obligation to maintain reasonable standards of efficient production and to preserve and develop the fertility of the soil.

(2) Sanctions should be provided in the legislation for the fulfilment of certain obligations such as (a) for large and medium holdings, the bringing of cultivable waste under cultivation within a reasonable period, (b) measures relating to levelling, bunding, fencing, maintenance of irrigation channels, control of insects and diseases and eradication of weeds and terracing of fields, and (c) the use of improved seeds, composting of farm refuse, etc.

Land reform programmes were given a special significance both in the First and Second Plans. They had two specific objects: (1) to remove impediments to increase in agricultural production arising out of defective agrarian structure, and (2) to eliminate all elements of exploitation and social injustice, to pro-

vide security for the tiller and to assure equality of status and opportunity to all sections of the rural population. The principal measures adopted to secure the first objective were the abolition of intermediaries or rent-receiving tenures and the reform of tenancy including regulation and reduction of rent and security of tenure and conferment of the right of ownership on tenants. In pursuance of the second objective, ceilings have been imposed on land holdings and surplus lands distributed. Efforts have been made to settle landless labourers on waste lands. In this way not only an attempt has been made to reduce disparities but also to afford a measure of opportunity to the landless section of the population. Action on these lines will be carried on in the Third Plan so that land reform programmes are effectively implemented.

Abolition of Zamindari

From the suitable land policy discussed above it is clear that to put agriculture on the rails, zamindari had to go. One member of the Bengal Famine Commission, Sir M. Nanavati, felt convinced that zamindari was incompatible with efficiency of production and favoured its abolition.[1] He said, "The zamindari institution is too obsolete to fit into any government organisation."

The peasant's history during the last 100 years is a pitiful tale. His condition went from bad to worse. He had to pay more and still more rent while the Government's share as land revenue remained stationary. Ejectments were common for non-payment of dues. Very often the peasants' poor belongings, utensils, cots, cattle and even roofs were auctioned to realise arrears of rent. Sir Nanavati, therefore, favoured the abolition of zamindari and its substitution by the Ryotwari system. The Sub-Committee of the N.P.C. in its report on Land Policy also suggested that "the ownership in all forms of natural wealth must belong to and vest absolutely in the people of India collectively....No intermediary parasites—Zamindars, Taluqdars, Malguzars, etc.—should be recognized." All rights belonging to these classes should be bought out and steps taken to consolidate all holdings into standard units with a view to maximizing the aggregate net return. No subdivision of agricultural land by inheritance, mortgaging, or alienation should be permitted.[2]

The zamindari system destroyed the very basis of agricultural prosperity. The cultivator had no incentive for introducing improvements in land. Agricultural efficiency suffered and productivity of land went down.

Besides, the income of State Governments was absolutely inelastic. No expansion of revenue was at all possible. Welfare activities of the States consequently suffered.

Nobody benefited except the zamindar which he did both at the expense of the State and the tiller of the soil. He led a use-

1. See Minute of Dissent by Sir Nanavati, Report, pp. 348-75.
2. N.P.C. Report on Land, Policy and Agriculture, pp. 48-49.

less life and proved an incubus strangling all efforts and initiative. The zamindar was thus a functionless element in the rural policy. He needed removal.

Thus the process of zamindari abolition started. This involved the purchase of all proprietary rights by the State from the present landlords and conferring them on the actual cultivators. The existing tenants would enjoy rights of occupancy so long as they paid their dues to the Government and they will enjoy security of tenure. Under the Indian Constitution the State is required to pay compensation for any property compulsorily acquired under the Land Acquisition Acts. The States have generally fixed the rates of compensation to the previous owners as a multiple of the net income of the property. The net income is multiplied by 8 in U.P and 10 in Madhya Pradesh. In other States, the compensation is on a graduated scale. The compensation is payable in bonds or partly in bonds and partly in cash instalments spread over a period of 40 years. In some States, as in Madhya Pradesh, the compensation is collected from the tenants who will acquire quasi-proprietary rights. The sums so realised will be paid to the outgoing landlords. The total amount of compensation including rehabilitation grant and interest has been put at Rs. 625 crores of which a major portion will be paid in Bihar, Uttar Pradesh, West Bengal and Rajasthan.

Difficulties of Abolishing Zamindari

There have been two difficulties in the way. First is the financial difficulty. The Land Revenue Commission, Bengal, estimated that on the basis of compensation at 15 times the net profit, the total compensation payable to holders of proprietary interests in Bengal would come up to Rs. 137 crores. The total sum for India might come to Rs. 350 crores. But the financial difficulty was not insuperable, as the money was not to be paid all at once but over a period of 20 to 30 years; and only a small portion of the amount would have to be borrowed immediately. Payments would be made by annuities out of the additional revenue from the acquired resources. Thus the difficulty has been more or less overcome.

Secondly, there is the administrative aspect, especially in the case of permanently settled estates. The revision of record of rights is an essential preliminary. The necessary settlement operations might take some years. But these difficulties are not insuperable and almost all States in India have nearly finished taking over zamindaris.

However, it must be realised that the abolition of zamindari system does not mean the attainment of the ultimate goal of agricultural progress and prosperity. In the words of late Pt. Nehru, it is only "the removal of an obstruction to growth." Now that the hindrance has been removed, the land should be so organised as to yield maximum production as also to secure social justice. Millions of small and poor peasants cultivating tiny holdings by

primitive methods is no answer to the problem of agricultural progress. Further effective steps towards joint or co-operative village management will have to be taken to give the country a really ideal land system.

The abolition of intermediary interest has now been accomplished. It has been carried out fully or substantially in all States. Bihar and Uttar Pradesh showed the way in zamindari abolition and land reforms. More than 200 lakh tenants have been brought into direct relationship with the State as a result of abolition of intermediary tenures. Also, considerable areas of cultivable waste land, private forests, etc., have been acquired and are being administered directly by the States or through local agencies such as village panchayats. The problem of payment of compensation is now engaging the attention of the States. Out of the total estimated amount of Rs. 641 crores (including rehabilitation grant and interest) about Rs. 230 crores have been paid out either in cash or in the form of bonds.

The Planning Commission Committee for land reforms has however noted that quite a sizable area of land is still held at present by absentee owners and the Committee has suggested the abolition of absentee ownership of land. 'Personal cultivation' should be so defined as to ensure that not only it required the residence of the owner in the village but also contribution of labour by him and his family. Among the other suggestions made by the Committee are abolition of share cropping and conversion of rents in kind into cash rents and acceleration of the programme of transfer of ownership to tenants.

According to a report by the Planning Commission, one of the difficulties in the way of implementing land reforms is that the administrative arrangements for supervising action have been inadequate and public opinion has not been prepared for forcing the pace.

Tenancy Reform

So far as tenants are concerned the abolition of zamindari is a negative act. The tenants need some positive relief measures. The rise of the tenancy problem in India is the result of the working of economic forces for the last several generations. In the time of East India Company, the tax collectors became landlords with legal rights. Absenteeism now became a common feature and a host of rent-receivers grew between the zamindars and the actual cultivators. Gradually with the increase of population and the saleability of land, transfer of land to the non-agriculturist **mahajan** became frequent. There was a rapid increase in the class of tenants and agricultural labourers. Rent receivers too increased and sub-infeudation developed apace.

The tenancy problem can be looked at from two points of view: (i) from the point of view of the tenant and (ii) from the point of view of the society and the country. The real question to be considered is whether, under the prevalent tenancy system;

the tenant gets a fear deal or not and whether the system gives us good results in the matter of agricultural production and efficiency. The system of tenancy as it obtains at present is open to serious objections in both these respects.

The tenant is a victim of utter exploitation. The land system reduced him to a state of abject misery. The system results in an unjust distribution of income from agriculture between the landlord and the tenant. Such social injustice is bound to breed mass discontent and lead to social and political revolution. Moreover, it drags down the efficiency of agriculture.

Two things are required: (1) The tenants' rent is to be fixed at a reasonable level and owners are to be prevented from turning them out. (2) The tenants are to be enabled to become owners themselves. As a very large number of land owners themselves have petty holdings and personally cultivate a part of their land, a careful adjustment has to be made between the interest of proprietors on the one hand and the tenants on the other. The main feature of tenancy reform in India is therefore to allow the land owners a limited area for personal cultivation and, at the same time, to ensure that the tenants are not rendered landless under new legislation. The tenants needed protection by the regulation of their rents, ensuring security of tenure and enabling them to purchase their holdings.

In India all these objectives of land policy are important. Freedom to work the land and securely enjoy the fruit of one's labour is important. Equality is greatly prized where there have been sharp inequalities in income Productivity per man as well as per acre is low and has to be raised. There are a large number of uneconomic fragmented holdings. Rents have been high and debt burden heavy.

The First Five-Year Plan made the following recommendations concerning tenancy reform:—

1. Rents should not ordinarily exceed one-fourth or one-fifth of the produce.

2. Existing tenants should have the right of occupancy subject to the landlord's right to resume a limited area for personal cultivation.

3. In the future, the tenancies should ordinarily be for 5 to 10 years, resumption being permitted if the owner himself wishes to cultivate.

4. The tenants of areas not resumable by the landlord should get the right of purchase—the purchase price to be multiple of the rental value of the land, and payable in instalments.

5. Owners should be required to exercise the right to resume land for personal cultivation, within a period of 5 years, failing which the tenants should get the right to purchase land.

Features of Tenancy Legislation

The tenancy problem had become very acute. The zamindari abolition does not play so significant a part in land reforms as the regulation of tenancy. The former touched only 2.1% of the agricultural population in the country (1951). They may have been important politically and they may even be very vocal, but they did not present a major social problem. But the tenants were 12.7% of the total agricultural population.

The zamindars were the creation of political expediency and could be displaced by political action. Tenancy was, on the other hand, the result of deep-rooted causes, the most important of which was the worsening of the economic position of the agriculturist due to: (a) pressure at population, (b) fall in agricultural income, (c) decline in alternative occupations, (d) change to a market economy from a self-sufficient one, (e) land being treated as a freely saleable commodity, and (f) apathy on the part of Government towards farmers.

The tenants' problem was as acute as it was vast. It was also cumulative as there was a large and rapid increase in the numbers of tenants and landless labourers. Even the peasant-proprietors were tenants in many cases. Hence mere figures are deceptive.

Legislation was, therefore, urgently needed all over the country. It came in almost every State in one form or the other and generally speaking it has succeeded in its main objective. The main features of the tenancy legislation are as under:

(i) **Fixing Fair Rents.** In most of the States, the maximum rent legally chargeable by the landlords from the tenants has been fixed. In the Punjab, for instance, it cannot exceed one-third of the gross produce, in former Hyderabad one-fourth of the irrigated and one-third on other lands; in Rajasthan one-sixth of the gross produce and so in Bombay. In some States, e.g., in Bombay and in former Hyderabad, the tenants can get their crop-share rent commuted into cash rents and so in Bihar. In Uttar Pradesh, the rent payable by former sub-tenants has been fixed at twice the hereditary rent; in Delhi and in certain cases in Assam and Telangana and Karnataka regions of the formerly Hyderabad State at one-fifth; in Orissa, Himachal Pradesh, parts of Mysore and Vindhya Pradesh and Madhya Pradesh at one-fourth; in Bihar at seven-twentieths of the produce; in Madras at two-fifths of the gross produce. In the former Andhra area, Malabar (Kerala), West Bengal (in respect of **bargadars** and crop shares) and Jammu and Kashmir, it is fixed at one-half of the gross produce in certain cases. But these provisions can be made effective only if they are accompanied by the security of tenure and the tenants' right to purchase ownership rights.

(ii) **Providing Security of Tenure.** The legislation provides that the tenants cannot be ejected so long as they continue paying rent. In majority of the States, the tenants have been granted security of tenure in respect of lands not resumable by the

landlord for personal cultivation. In order to safeguard against indiscriminate resumption, the Second Plan suggests that in respect of personal cultivation, certain obligations should be imposed on the owners, e.g., personal supervision, residence in or near the village, personal labour and bearing the entire risk of cultivation. Some States have actually laid some of these obligations. 'Voluntary surrenders' are being properly regulated. In some States, the minimum period of lease of land has been fixed, e.g., 5 years in the Punjab and Madras and 10 years in Bombay.

(iii) **Giving the Right of Purchasing the Holding.** In order to enable the hardworking tenants to become owner-cultivators, the tenants have been given the right to purchase their holdings in many States. In the Punjab, the right has been given to those tenants who have held the land continuously for 12 years.

In Madhya Pradesh all sub-tenants in jagirdari and zamindari areas have been allowed to acquire ownership within two years of the commencement of the Act failing which they will be liable for immediate ejectment. The purchase is allowed either at fair prices determined by tribunals appointed for the purpose or on payment of a certain multiple of land revenue or rent.

(iv) **Compensation for Permanent Improvement.** On quitting the land, the tenant is entitled to compensation for such improvements as farm buildings, drainage wells, etc., which he may have made or trees he might have grown.

(v) **Remission of Rent.** In times of famines or other natural calamities, the landlord is given relief through the remission of land revenue.

(vi) 'Begar' and unauthorised 'abwabs' or levies have been declared illegal.

(vii) In the case of arrears of rent, some exemptions have been given from attachment, e.g., his standing crops, tools and implements, cattle, etc.

Estimate of the Tenancy Legislation

The measures in various States have considerably curtailed the privileges of the landlord. But unfortunately the benefit has not always gone to the actual tiller of the soil. The occupancy tenant whose rights have been protected is not always the actual cultivator. He has in turn become a mere rent-receiver. The actual cultivator very often is a mere tenant-at-will working on the **Batai** system. Tenancy legislation does not benefit him. He is rack-rented as before and enjoys no security against arbitrary ejectment. The pressure of population on land is so heavy that the tenant is left in a very weak bargaining position. Besides, there are always loopholes in the law and the tenant, being poor, cannot benefit from the legislation. Moreover, there are no adequate administrative arrangements to enforce these measures.

Realising the limitations of these measures, the various State

Governments have decided to eliminate the tenancy itself. The principle of **'land to the tiller'** has now been accepted and measures have been taken to implement it. That is why zamindari has been abolished so that the cultivators hold land directly from the State.

The position now is that the intermediary rights have been abolished. The multiplicity of tenures has been reduced. Small peasants will in the immediate future form the main body of cultivators. According to the Planning Commission, the structure of the rural economy is proposed to be reorganised on the pattern of co-operative village management.

While security of tenure has been assured and the rents reduced in several States, the progress of the transfer of rights of ownership to tenants has been slow.

When a landlord wishes to resume land for personal cultivation, personal supervision by the owner or a member of his family and labour participation in agricultural operations should be insisted upon. The tenants should have continuing and heritable possession in areas in excess of the limit of resumption for personal cultivation.

A survey by the Planning Commission revealed that six States—Andhra Pradesh, Assam, Bihar, Madras, Mysore and Orissa—have not so far enacted or enforced comprehensive legislation for tenancy reforms. The survey shows that ejectment of tenants has taken place in the country on a considerable scale under the cover of voluntary surrenders by tenants. These surrenders are not bona fide transactions and they have tended to defeat the aims of the legislation for ceilings as well as tenancy reform.

Another difficulty is that there is a considerable number of 'informal' tenants who are not recorded in the revenue papers and are not recognised as such. They pay high produce rents and enjoy no security of tenure.

The principal points calling for action, according to the Planning Commission, are:

1. There should be replacement of temporary provisions for prevention of ejectment of tenants by comprehensive legislation for security of tenure;

2. The right of resumption for personal cultivation should be restricted;

3. Legal and administrative deficiencies relating to registration of voluntary surrenders of tenancies should be removed;

4. There should be conferment of rights of ownership on tenants of non-resumable lands; and

5. Commutation of rents in kind into cash rents.

However, the difficulties and defects inherent in the cultivation of small holdings by tenants can be removed only by co-operation farming which alone offers a suitable solution.

CHAPTER VIII

The Unit of Cultivation

Besides land reforms, there are two other essentials of progressive agriculture: (a) an economic unit of cultivation, and (b) proper equipment. There is no doubt that the peasant will put in his best effort if he is certain of reaping the fruit of his labour. To ensure this it is necessary to abolish all superior interests which appropriate the profits of cultivation. This task has almost been accomplished. But by itself alone it may not bring about increased production. Productivity of land is also determined by the character of cultivation and the equipment available. The unit of cultivation is of no less importance. The size of holding determines the character of equipment that can be usefully employed. Even proprietary rights do not induce best efforts if the holding is of an uneconomic size. Agricultural efficiency really depends on the size of the farm. Indian agriculture is bound to remain inefficient and backward until something is done to bring into existence holdings of suitable size.

Unit of Cultivation or Ownership. Holdings may be ownership or cultivation holdings. The ownership holding may be large in size but it may be distributed among a number of cultivators, thus making the unit of cultivation small. Conversely, a number of owners' holdings, each small in size, may be cultivated by one tenant, thus making the cultivator's holding large. Sometimes the owner cultivates his own holding. He may, of course, let out a portion or may take on rent some adjoining land. From the point of view of efficiency **it is not the size of the ownership-holding, but of the cultivation-holding, that matters the most.** It is seen that an average cultivator's holding in India is not only small in size, but is split up into pieces scattered all over the village area. In other words, in India we find there is an evil both of sub-division and fragmentation.

Some Concepts of Holding

A few distinct concepts of holding may be explained, viz., a basic holding, optimum holding, family holding and economic holding.

Basic Holding. The Congress Agrarian Reforms Committee Report recommends a smaller holding than an economic holding on sociological grounds rather than economic grounds. It calls it **a basic holding** and suggests individual farming assisted by a multi-purpose co-operative organization for the other operations. This is the lowest limit of a holding.

Optimum Holding. The Agrarian Committee holds that there should also be an upper limit to the size of holding and calls it an optimum holding. In the Committee's opinion, **mechanized capitalist farming leads to exploitation and is a social evil.** Hence it suggests that the optimum (i.e., the maximum) size of a holding should not **exceed** three times the size of the economic holding. There may be exceptions for joint families and charitable institutions. A limit on the optimum size is, therefore, desirable in the interest of social justice as well as economic efficiency. Zamindari abolition legislation fixes the maximum size of holding that a cultivator will be permitted to own.

Family Holding has been defined by a Committee of the Land Reform Panel as the area which yields a gross average income of Rs. 1,600 p.a. or a net annual income including remuneration for family labour, of Rs. 1,200. It has to be considered from two aspects, viz., (1) as an operational unit and (2) as an area of land which yields a certain average income.

Economic Holding. We have seen that the basic holding is to be smaller than the economic holding and the optimum holding is bigger than the economic holding. But what is an economic holding? Economic holding has been variously defined. According to Keatinge, an economic holding is one "which allows a man a chance of producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses." Dr. Mann defines it as one "which will provide for an average family at the minimum standard of life considered satisfactory." Stanley Jevons would call a holding economic only when it ensures to the farmer not only "a minimum standard", nor even "a reasonable standard", but "a high standard" of living. The words "reasonable standard", "minimum standard" and "high standard" are vague. Really an "economic holding" should mean a holding which provides fullest and the most remunerative employment of the factors of production at the disposal of the farmer. With the cattle, implements and machinery, irrigation facilities and manpower that a farmer commands, it should produce the best results considering the quantity and quality of the factors and the crop to be sown. Economie holding is the ideal size of the holding.

Thus it is not easy to define an economic holding. Its size varies with soil and climate but is such as to provide continuous employment to a family[1] and a reasonable income. The size of

1. **The expression family includes husband, wife, dependent sons and daughters and grandchildren.**

the economic holding mainly depends on the following:—

(a) **Methods of cultivation.** If mechanized methods are used the size of an economic holding will be 200 acres or even more. With old methods 7 to 25 acres or even less would make a holding economic.

(b) **Crops raised.** For wheat the size of the holding has to be large to give best results. For vegetables and fruits the size required is comparatively small.

(c) **Productivity of the soil.** When the soil is good, a small area may easily support a family. When the soil is inferior or lacks water, a large area will be necessary. For instance, 6 acres in Jullundur district of the Punjab may give a higher standard of living to a family than, say, 15 acres in Hissar or 25 acres in Assam.

(d) **Organization of agriculture.** If the farming is carried on co-operatively, a large-sized holding will produce best results; if carried on individually, a small-sized one may be good enough. This is because machines can be profitably used on a large holding.

(e) The size of a family and its equipment also determine an economic holding. Such a holding varies according to the character of the soil, rainfall, and facilities available for irrigation and marketing.

It is thus clear that the size of an economic holding—its upper or lower limit—cannot be arbitrarily fixed. It will depend on the technique of production, the type of production, the type of equipment, the type of irrigation available, the quality of the soil, the distance of the market, the value of land (being larger when it is cheap and vice versa), etc.

We cannot say which particular area will constitute an economic holding since it depends on a combination of factors. Dr. Mann puts the size of such a holding in the Deccan village at 20 acres and Keatinge puts at 40-50 acres for Deccan. Stanley Jevons puts it at 30 acres with reference to conditions in U.P. It is impossible to generalise. But one thing is clear that there is no means of securing for every farmer an economic holding in India unless there is a revolution. Co-operative farming seems to be the only way out.

Sub-division and Fragmentation

Actually, the holdings in India are far from economic. For centuries sub-division and fragmentation of holdings have been going on in India. The result is that the size of an average holding in India is simply ludicrous. The All-India Agricultural Labour Enquiry (1950) has shown that the largest percentage of holdings relates to those which are less than 2 acres each. According to Mr. Keatinge, in a Bombay village "fields measuring less than half an acre are found to be sub-divided into more than 20 separately owned plots". In Ratnagiri, the size of the individual plot is some-

times as small as .00625 of an acre, so that it is not possible even to turn a pair of bullocks for ploughing that piece of land. Shri Ram Lal Bhalla found that in the village of Bairampur 34.5% of the cultivators had over 25 fragments each. This was by no means an extreme example but was typical of the general situation.

According to the latest statistics compiled by the Census Commissioner of India, the average size of holdings for India as a whole works out at 7.39 acres. The average size in the pure tenancy holdings is the lowest and varies between 2 and 3 acres in Kerala, Madras, Assam, West Bengal, Orissa, Bihar and Uttar Pradesh, whereas it varies between 7 and 10 acres in Punjab, Rajasthan, Gujarat and Maharashtra. The average size of the mixed holdings, however, is relatively large in all States except Uttar Pradesh Of all the mixed tenancy holdings, 48% are of less than 5 acres.

The size of cultivation is more significant than the size of ownership. Many of the holdings below one acre in Punjab, for instance, are cultivated along with other areas. On the other hand, most of the large holdings are parcelled out by the owners to tenants, each cultivating a small area. Mr. Calvert's enquiry into cultivators' holdings in the Punjab found that only one per cent cultivated over 50 acres each. The position in the Indian Punjab is not better.

The agricultural holdings in India are much smaller than in other countries. It is 7.5 acres in India as compared with 20 acres in U.K., 14 acres in Belgium, 20 acres in France, 145 acres in U.S.A. and 21 acres in Germany. In China, however, it is 3.25 acres. In certain States in India conditions are worse than even in China. In thickly populated Bihar and Orissa many tenant holdings average less than half an acre though the average is 3.1 acres per cultivator. In Bengal the average is only 4.7 acres. In Madras and Bombay many of the holdings are less than 3 acres.

In countries where the holdings are small, joint or cooperative farming has been introduced and intensive methods of cultivation employed. The Kvutza Co-operative Settlements in Palestine, Eljidos in Mexico and Joint Farming Societies in Italy and East European countries have remarkable achievements to their credit. Something has been done in India too to increase the size of holdings through co-operation. But a good deal remains to be done.

In India not only are the holdings small but they are also split up into plots scattered all over the village. Thus there is fragmentation besides sub-division. Sub-division of a holding results in the area held by a peasant becoming smaller with every successive generation. Fragmentation implies that a holding is cut up in pieces and scattered all over the village area. Usually fragmentation of ownership means fragmentation of cultivation, but not always. A cultivator may rent a compact block of land consisting of several plots belonging to different owners. On the

other hand, a compact holding may be let to different tenants in pieces. From the economic point of view, consolidation of cultivation is more important than consideration of ownership. It is better if the two coincide.

Fragmentation is caused at the time of sub-division of property among several owners, each of whom wants to get a portion of every ancestral piece. Fragmentation of cultivation is, therefore, the result mainly of fragmentation of ownership. Enquiries show that both in North and South India, the evil of fragmentation has gone very far indeed. Sometimes plots are a mile long and a few yards wide, not enough for bullocks to turn round. Fragmentation is an unmitigated evil.

Causes of Sub-division and Fragmentation

The main causes which have led to the small size of holding and its being cut up into scattered pieces are given below:—

(i) **Growth of Population.** As population grows, land gets divided among larger numbers and size of holding correspondingly diminishes.

(ii) **Laws of Inheritance.** Both Hindu and Muslim laws of inheritance favour partition of land. At the time of division, the heirs demand a piece from every quality of land. Thus with sub-division of holdings comes their fragmentation too.

(iii) **Decay of handicrafts.** Due to competition from machine-made goods, handicrafts declined and pressure on land increased. And there was no corresponding industrial development to take away the surplus population from land. Demand for land became keener which led to sub-division.

(iv) **Attachment to landed property.** In India land is a source of prestige. Hence everybody wants a share in land and likes to cling to it even though it may be too small to be properly cultivated. This again is responsible for sub-division..

(v) **British rule** which established peace gave value to rights in land and encouraged money-lenders to invest in land. With the increase in the number of purchasers, the size of the holdings must diminish.

(vi) **Agricultural indebtedness** has worked in the same direction. It has compelled a farmer to part with a portion of his land reducing the size of his holding.

(vii) **Breakdown of joint-family system and the growth of the spirit of individualism** have made joint farming impossible. This has resulted in the division of landed property.

(viii) **Village money-lenders** purchased much land and left small plots with cultivators which got further sub-divided at the time of succession.

The main cause, however, is the increase in population. The area per capita has been decreasing with every decade in India.

It was 111 cents in 1921, 104 cents in 1931, 94 cents in 1941 and 84 cents in 1951. The magnitude of the drop is quite substantial —nearly 25 per cent. Unfortunately the decrease in cultivated area per capita has not been accompanied by a corresponding expansion of alternative occupations.

We may sum up by saying that the rapid increase in population accompanied by corresponding development of industries, the break up by the joint families and these factors aided by the laws of inheritance have resulted in the present alarming extent of sub-division and fragmentation.

Evils of Sub-division and Fragmentation

Sub-division of holdings is sometimes justified on the ground that it gives equal chances to all heirs, prevents the creation of landless labourers and promotes economic and social stability. It gives something to everybody as a start in life. Similarly fragmentation is defended on the ground that it insures the cultivator against vagaries of seasons by enabling him to sow his crops on different soils and makes possible a more elaborate rotation of crops. It is further argued that intensive farming is more successful on smaller plots. Paddy cultivation, for instance, is more paying if the plots are small.

But the evils of small and fragmentary holdings are much greater than any advantage that may accrue from them. Whatever little justification sub-division and fragmentation may have, it will be at the cost of agricultural efficiency. The social and political gains claimed for them are, at their best, negligible as compared to the very serious disadvantages which arise from sub-division and more so from fragmentation. They waste both human energy and material resources and retard agricultural improvement. The plots are uneconomic and even the poor equipment possessed by the cultivator is not used to the best advantage. Improvements like sinking wells, fencing, labour-saving devices and large-scale production become an impossibility. Besides, standing charges being the same on a small as on a large farm, the cost of production per unit of produce is higher on a small farm.

Owing to the smallness of holdings, it may not be considered worthwhile to incur some fixed and variable costs. The result is bound to be agricultural inefficiency. Thus in the absence of fencing, there will be no protection from the invasion of weeds from the neighbouring fields and from the depredation of thieves. Crops are also liable to be damaged by cattle straying from the neighbouring fields. An enterprising and progressive cultivator will thus find it impossible to translate his ideas into practice.

Small holdings, arising out of continued sub-division, constitute the most formidable difficulty in the way of mechanising Indian agriculture.

Commercial farming is not practicable on small economic holdings. The expense per acre rises and the return per man de-

creases as the size of a holding decreases. **Standard of living cannot rise in case of a deficit economy.**

Apart from these, fragmentation has some additional drawbacks. It has been estimated that in Punjab, 6% of land is wasted on account of fragments being too small and additional 10% is lost to cultivation on boundaries needed to separate these fragments. There is thus a large loss of land resources.

Also, fragmentation results in greater expenditure of capital and labour. Mr. Misra's inquiry in U.P. revealed that the expenditure on cultivation increases by 5.3% for every 500 metres of distance for manual labour and ploughing by 20% to 35% for transport of manure and by 15% to 32% for transport of crops. It is in these ways that fragmentation adds to the cost of cultivation.

Moreover, fragmentation causes great waste of time, labour and cattle power in going from village site to the fields and from one fragment of holding to another. In order to save time, the farmer takes short-cuts through other people's lands. Apart from damage to crops, it leads to quarrels and disputes about boundaries which may result in costly litigation.

Moreover, in the case of excessive fragmentation irrigation becomes almost impossible because water can only be taken through channels crossing other people's fields. This becomes another cause of much disharmony and bad blood among the village folk.

Fragmentation of holdings renders it impossible for the cultivator to stay at the farm. Thus personal supervision is not out of the question. He must reside in the village and keep his cattle too there. This means not only insanitation in the village but great loss of valuable farmyard manure.

Dr. Mann has thus summed up the disadvantages: **Fragmentation "destroys enterprise, results in an enormous wastage of labour, leads to very large loss of land owing to boundaries, and makes it impossible to cultivate holdings as intensively as would otherwise be possible."**

Remedies ....

Three kinds of remedies have been proposed to meet the evil: (i) those which create economic holdings; (ii) those which prevent fresh fragmentation; and (iii) enlargement of existing holdings. They are:

(i) **Creation of Economic Holdings.** This may be done either (a) by socialization of all land and then its cultivation on the principle of collective farming as in the U.S.S.R. Or

(b) By pooling land and cultivating it on the **co-operative or joint management** principle while keeping private property in land intact. Or

(c) By the **State advancing money**, as in Italy, and **taking over old mortgage to promote economic holdings.** The number of uneconomic holdings is very large in India and the sentiment in favour of ownership very strong. Land mortgage and co-operative banks can, however, help in this direction.

(ii) **Preservation of Economic Holdings.** After economic holdings have been created in any of the above methods, it will be necessary to prevent their sub-division. This may be done in the following ways:—

(a) By changing the laws of inheritance and adopting the law of primogeniture so that landed property will pass on to the eldest son. But vocations will have to be found for the younger sons otherwise a large landless class will result. Moreover, religious sentiment will be a big hurdle in the way.

(b) By making a holding impartible after it has reached a certain size. In Egypt, "Although the land is nominally divided amongst the heirs, it is actually left in the hands of one to cultivate on behalf of the whole number or may be handed to trustees to manage for all."[1] Mr. Keatinge suggested giving to the right-holder of an economic holding power to register it as such after which the holding would become impartible.

(c) By consolidating existing fragmented holdings, as is being done in the States. Punjab has shown marked success in this respect.

(d) By co operative farming and joint cultivation, which have been fruitful in other countries. Experiments have begun in India, too, particularly on newly reclaimed lands in U P.

Legislation has been enacted in almost all states to restrain tendency to sub-division and fragmentation by regulating transfers, partitions and leases.

(iii) **Enlargement of Existing Holdings.** This is being done by fixing of maximum size of the holdings. By imposing a ceiling or upper limit, the excess of land area over this limit will be able for raising the size of the uneconomic holdings. The lower limit will prevent the holdings from falling below the bare minimum.

The other remedies are:

(iv) Consolidation of holdings and

(v) Co-operative Farming.

These we discuss below.

It must not be forgotten that there are great difficulties in the way of preventing sub-division and of creating economic holdings. So far consolidation seems to be the only practical policy.

Consolidation of Holdings

"The only measure that appears to promise relief", wrote the

1. Agricultural Commission Report, p. 138.

Royal Commission on Agriculture, "from the evils that arise from fragmentation of right-holders' holdings is consolidation of holdings. By this process, all the land of one holder may be formed into one plot only, or in a few plots."

Consolidation is now going on in all Indian States. The methods adopted vary considerably. In Madhya Pradesh and J. & K., the legislation permits the Government to exercise partial compulsion on a minority of landholders when a number desire consolidation. In U.P. a scheme of compulsory consolidation has been put into operation in 2 districts. Generally the scheme is handled by co-operative societies in the Punjab and U.P. Elsewhere it is a part of State plans. In the Punjab, the Consolidation of Holdings Act, 1936, allowed compulsion to be used if a stubborn minority stood in the way. But consolidation has not been so successful in other parts of India as in the Punjab where it is facilitated by comparative homogeneity of soil and by simplicity of tenure.[1] Punjab has the largest number of co-operative societies for consolidation, being 1,336 in 1951-52. U.P. comes next with 518, Madras has only 20. The co-operative societies consolidated no less than 7 lakh acres in the Punjab over a period of 30 years.

Both the First and Second Five-Year Plans have emphasised the need for the consolidation of holdings. The State Plans for the Second Plan period include a provision of Rs. 450 lakhs and the target fixed is 360 lakh acres. Since consolidation work cannot be started all at once over the entire area, the Second Plan recommended that it should first be introduced in selected areas. These include areas: (i) which are likely to come under irrigation, (ii) which are already being irrigated or have adequate rainfall and (iii) National Extension and Community Project areas. By the end of the Second Plan, consolidation operations were completed over 30 million acres. The target for the Third Plan is 3.13 million acres. During the first two years of the Plan about 1.46 crore acres were consolidated and at the end of 1962-63, consolidation work was in progress over nearly 80 lakh acres. Of the 4.40 crore acres consolidated so far, 1.96 crore acres were consolidated in Punjab, 1.3 crore in Uttar Pradesh, 45 lakhs in Madhya Pradesh, 36 lakh acres in Rajasthan and 28 lakh acres in Maharashtra.

It is encouraging to see that the average cultivator has now started realising the benefit of consolidation and, over the greater part of the country, needs no persuasion for adopting it. Consolidation of holdings, in spite of several malpractices that have been associated with it, has been perhaps the most popular agricultural measure in recent years in the Punjab.

It has, however, to be admitted that the progress of consolidation has been very slow indeed. Only in the Punjab almost the entire area sown has been consolidated, elsewhere the progress

1. *Ibid.*, p. 139.

has been disappointing. For instance in U.P. one-fifth of the sown area and in Madhya Pradesh and Rajasthan one-tenth and in other States it works out less than 4% of the total area sown in each State. There are two States, Madras and Kerala, where no legislation for consolidation and prevention of fragmentation has been enacted so far. In Assam, Jammu and Kashmir, Orissa and Bengal, though the necessary legislation has been enacted, but no steps have been taken for its implementation.

Benefits. Consolidation saves time and labour, facilitates improvement of land through irrigation and dry farming practices, gives an opportunity for replanning individual holdings as well as the village **abadi** and for providing various amenities like playgrounds, schools, hospitals, etc. As a result of consolidation there is a reduction in the number of plots. Roads have been straightened. Land has been reserved for schools and for other common purposes. Litigation has decreased.

There are several difficulties in the way, e.g., (a) Conservatism and sentimental attachment to ancestral lands. (b) Lack of proper records of rights in some areas. (c) Technical nature of the work. (d) Finance. (e) Lack of co-operation of zamindars, anti-propaganda by unsocial elements. But these difficulties are being steadily overcome.

Methods to Check Fragmentation after Consolidation. When the land is once consolidated the following measures are necessary to check further fragmentation:—

(a) Fixing a minimum limit of holding. In 15 States, legislative measures have been adopted to prevent excessive fragmentation or sub-division. In Madhya Pradesh, a minimum limit of 15 acres has been fixed in the Madhya Bharat area, and 5 acres in Bhopal area. In the former Vindhya Pradesh area, 5 acres have been prescribed as the minimum limit for irrigated land and 10 acres for dry land. The minimum in the former Hyderabad State area of Andhra Pradesh is 4 to 60 acres, 3½ acres in Uttar Pradesh and 8 standard acres in Delhi. In U.P., if a holding of less than the prescribed size is to be split, the court shall arrange its sale rather than allow partition.

(b) To check transfer of fragments unless they are merged in contiguous plots.

(c) To prohibit sub-division without permission of Government.

These steps are very essential if the entire work of consolidation is not to be undone in the course of one generation.

Collective Farming

Consolidation of holdings at its best is only a palliative and not a complete solution. If a small holding is consolidated and is prevented from fragmentation again, it still remains a small holding. If its size is below the economic level, there will still

be waste of labour and capital. Agricultural efficiency is bound to suffer. One solution—rather a revolutionary solution—is to abolish private ownership in land altogether. It has been suggested that all land should be nationalized and cultivated in large units with the help of the latest scientific implements and the workers should get a return according to their needs or according to the quantity or quality of work done. Land and farm equipment should be pooled together once and for all and no individual rights in these are to be recognised subsequently. This is called "collective farming". This is what has been done in the Kolkhozes in Soviet Russia.

Such a change would be too revolutionary in the present social organisation of the country. Both religion and custom recognize private property in land and the desire for its possession is too deep-seated in the peasant's mind to be rooted out. Besides, socialization of land is not possible unless all other forms of capital are also treated in the same way. Hence the Russian experiment will not suit the country under present conditions. This must be ruled out as impracticable.

Co-operative Farming

Co-operative farming has been a subject of acute controversy since passing of the Nagpur Resolution about it in A.I.C.C. Session in January, 1959. Some of the big guns have boomed on both sides. Co-operative farming is a compromise between collective farming on the one hand and peasant-proprietorship on the other. It can give the advantages of large-scale farming without abolishing private property. The proprietors form co-operative farming societies. The land is pooled for purposes of cultivation but individual rights are maintained. Mechanized operations with State-owned or co-operatively purchased machinery thus become possible. Payment is made according to work and separate remuneration is given for ownership rights. In a full-fledged co-operative society, the members plough lands together, irrigate and harvest together, arrange for the marketing of their produce together and carry on together some rural industries in their spare time, and so on.

Co-operative farming of some kind is the most important requisite of agricultural efficiency in India. The United Nations Report on **Rural Progress Through Co-operatives**, has emphasised that "co-operative farming ideally fits into the system of reoriented land tenures in an under-developed country determined to achieve economic development through democratic means." The co-operative principle has been tried in India piece-meal in the problems of credit, marketing, etc. The results, with a few exceptions, have not been appreciable. The main trouble has been poverty and illiteracy of the members. Co-operative activity calls for self-help and mutual trust. Moreover, it needs the right kind of leadership from among the people.

Case for Co-operative Farming

Perhaps the most serious defect in Indian agriculture, which is responsible for low yields, is the small and uneconomic size of the holdings. The result of the consequent inefficient cultivation is the poverty of the agricultural masses. Unless the unit of cultivation is enlarged, we cannot hope to raise the productivity of land both for feeding the population and for providing agricultural raw materials to our main industries. Co-operative farming is the best and the most suitable to all the methods of enlarging the unit of cultivation. The other alternatives are: (1) Acquisition of small holdings by the State and converting them into State farms in which the former landholders work as labourers and (2) Large landholders acquire the lands of small holders, the latter working thereafter as labourers. Both these alternatives obviously are neither desirable nor practicable. Also neither consolidation of holdings nor redistribution of land made available by imposition of ceilings offers to increase the size of holdings. Hence co-operative farming is the only suitable solution.

Besides, there are several distinct and positive benefits which co-operative farming confers. Available cultivable land will be better utilised. It has been estimated that 50 lakh acres of additional land will become available for cultivation simply from the removal of existing boundaries. With the enlargement of the unit of cultivation, all the economies of large-scale production become available—financial resources will be larger, with better finance, better implements or even tractors, deep plough, etc., can be used; and seeds of improved variety and manures and fertilizers can be arranged. Better irrigation facilities can also become available either through sinking wells or even tube-wells or by installing pumping sets. Big farms will ensure better utilisation of capital resources like bullocks, agricultural implements, irrigation facilities, etc. These farms will also be able to avail of scientific research and technical assistance much more than the small and scattered farms can do. They can introduce crop planning. It will be easy to collect statistics. Co-operation will help to promote social sense, community spirit, strong democratic sense and a feeling of security. It avoids the tendency to drab uniformity, regimentation and bureaucratisation which characterise State socialism. It is thus a golden mean between capitalism and socialism. Produce will be marketed at more favourable prices. There will also be economy in manpower, i.e., fewer hands will be needed for cultivation. Small farms are not able to provide optimum use of manpower in rural areas. Besides, co-operative farming will induce the landless labourers to put in their best effort as they acquire interest in the results of farming. Guidance from Government agricultural and other departments will be available to a much greater extent than is possible in the case of a very large number of small holders. Besides, cottage and small-scale industries can be organised for the members in the off-seasons and in their spare time. In short, co-operative farming will change the entire social, economic and cultural life of the people.

Mr. Henerik F. Infield in his book **Co-operative Communities at Work** says: "In Soviet Russia, in Mexico, in Palestine, the co-operative farming has been effective in introducing the more advanced farming methods into the former backward rural areas. By pooling resources, peasants have availed themselves of the advantages of large-scale farming and have thereby increased production and raised the standard of living. These co-operatives have brought medical care, improvement in diet and more decent and sanitary housing to the people who formerly lived in dirt and squalor, suffering from malnutrition or other diseases of poverty. Destitute farm-folk, as full-fledged members of a co-operative group, have acquired, for the first time in their lives, a sense of economic and social security. In fostering participation in the art, literature and social progress, the system has finally helped to redress the most distressing evil of rural existence, the idiocy of village life"

Case Against Co-operative Farming

But the gospel of co-operative farming has not received a ready reception in India Objections have been put forward both on the grounds of theoretical economics and practical politics The following are some of these objections:—

(i) It has been said that co-operative farming will offend against the sentiment of landownership, deep-rooted in India. The ownership on paper will not satisfy the Indian peasant when the land has practically gone out of his hands and put in a common pool. It may be replied however that since introduction of co-operative farming is to be voluntary and not compulsory, the Indian peasant will have reconciled himself to the new situation considering the positive advantages that will follow from co-operative farming.

(ii) Loss of initiative and incentive on the part of the farmer is another fear It is said that everybody's business is nobody's business. When the farming is joint why should any particular member of the farming society take keen interest? In no case can the interest be as keen as if the business was entirely and exclusively his own. But the answer is: Is the farmer a 'free man' today? The agricultural labourer is practically a serf, a tenant is at the mercy of the landlord and small peasant is in the clutches of the moneylender. If the peasant-proprietor had been a prosperous person, the objection would be valid But he is not. That in fact is the reason why co-operative farming is being advocated.

(iii) Another objection arises from practical difficulties. Are capable and conscientious persons available to manage co-operative farms? Not many of them. A mismanaged co-operative business will be much worse than individual business. It will lose the benefit of individual proprietorship without gaining the benefit of co-operative enterprise. But let us not place the cart before the horse. There must be co-operative farms and then gradually trained and efficient personnel will no doubt emerge. Training must precede the formation of co-operative farming societies.

(iv) There is a danger in the establishment of co-operative farms. Co-operative farming will involve some degree of mechanisation of agriculture. But mechanisation will not suit the present Indian conditions since we have already surplus labour on land. Mechanisation will render superfluous same labour employed at present on land. There is thus the danger of unemployment or under-employment increasing in India. This is a legitimate fear. But in course of time co-operative farming may create more employment. It is expected that small and cottage industries allied to agriculture will be developed which will absorb surplus agricultural labour. Co-operative farming on a large scale will be accompanied by the establishment of a chain of service cooperatives and technical improvements. This will no doubt impart a measure of dynamism to our rural sector. It is thus expected that fresh avenues of employment will be opened up.

(v) Difficulties will also arise in the determination and distribution of profits and wages in joint farming. How to distinguish between heavy work and light work? It will not be fair to pay all workers alike. There might be favouritism and nepotism. These are however administrative difficulties only and are not insurmountable. Difficulties arising out of the shortcomings of Indian character cannot be altogether avoided in any field, economic or political. They have to be faced and to some extent ignored in consideration of positive gains expected from a new experiment.

(vi) It is also pointed out that small holdings have a larger yield and must therefore be encouraged and not eliminated by the introduction of co-operative farming. But it may be true elsewhere, it is not true in India. Our small holdings are notoriously uneconomic and the sooner they disappear the better it is for all concerned.

Considering all **pros** and **cons**, there seems to be a good ground for boldly launching the experiments of co-operative farming if we want to get rid of the various ills from which our agriculture is suffering.

Measures for Promoting Co-operative Farming

Education and propaganda will break the individualistic spirit, remove indifference and create an urge for improvement. The successful working of the pioneer co-operative farming societies will be a still better recommendation. Several concessions and inducements can be offered by the Government to such societies, e.g., rebate in land revenue and irrigation, duty, control of village common lands, priority in irrigation, preference in the matter of supplies, finance, technical assistance, marketing, etc. Element of compulsion can be introduced in legislation for overcoming opposition of unthinking minority.

Experiments in different parts of India, however, show that there is a vast scope for co-operative farming and it is generally

agreed that co-operative farming should be developed as rapidly as possible. Millions of acres of culturable waste land are in the process of being reclaimed. In almost all States new settlements on co-operative pattern are being founded.

The role of co-operative farming in the reconstruction of the rural economy was stressed both in the First and the Second Plan. The main task during the Second Five-Year Plan was to take such steps as would give a sound foundation for co-operative farming. It is intended that in about ten years a large part of the agricultural land is cultivated co-operatively. The suggestions made in the Plan were: (1) to undertake pilot projects in co-operative farming all over the country to evolve better methods of management and organisation. (2) Areas becoming surplus on imposition of ceilings to be settled along co-operative lines. (3) Farms smaller than basic holdings to be pooled and brought into co-operatives. (4) Groups of persons to be encouraged to form co-operative farming societies.

Genuine co-operative farming societies should be helped by:—

(a) credit and financial assistance from Government and co-operative agencies; (b) supply of improved seeds, fertilizers, and material for construction; (c) facilities for consolidation of lands; (d) preference in the grant of leases of reclaimed lands, culturable waste lands, Panchayat and Government lands for forming co-operatives; (e) no adverse rights to land to be recognized so long as a co-operative farming society exists and works according to law; (f) technical assistance of experts in farming, marketing and production programmes; (g) technical and money assistance to members in developing cottage industries, dairying, horticulture, etc.; and (h) subsidy for managing expenses for a limited period.

Joint farming will also be possible in areas where multi-purpose river schemes are being introduced and where zamindari is abolished. All these areas, however, form only a small portion of the total arable land. Most of it is already in the hands of private proprietors whose holdings are small, fragmented and uneconomical. It is here that some form of co-operation is most needed and the ultimate benefits will be most evident.

The Working Group (Nijalingappa Committee) on co-operative farming in its report released in February 1960 pointed out that the development of co-operative farming in the country so far had been sporadic and haphazard. According to this group, the difficulties in the expansion of co-operative farming arise from a lack of proper appreciation of the subject in all quarters. The average farmer is afraid of reduction in his income; majority of official functionaries are not particularly helpful; administrative arrangements, laws and procedures governing financial assistance are often unsuited to the needs and financial agencies are hesitant in advancing loans to such societies.

The group is of the opinion that co-operative farming can be a success in India but lot of preparatory work is essential to create a favourable climate for the purpose. The development of co-operative farming cannot be regarded as a series of isolated experiments or projects. A radical change in the structure of society and the organisation of economic activity on co-operative lines can be brought about by generating correspondingly powerful social forces; the preparatory steps include preparing the people by the process of education for understanding joint activity through self-governing institutions like Panchayats and through the widening of co-operative effort in general. As the village Panchayats gain in power and effectiveness and as the coverage and scope of service co-operatives are progressively increased, a suitable atmosphere will be created for transition to co-operative joint farming on a large scale.

According to the report of the Working Group, the Societies organised by influential persons to secure allotment of land did not generally succeed in production, nor were the societies started for ameliorating the conditions of backward classes or landless workers. The societies of absentee landlords did increase production but since we are concerned with distribution also, such societies cannot be also regarded as satisfactory. Societies of large owners also did not realise any extra economies. But the Working Group found that substantial increase in production was achieved by societies where overwhelming majority of workers participated in farm operations with a view to increasing the yield. Such successful societies have developed techniques of crop planning and execution. They have been able to irrigate larger area, with the same availability of water, and were able to increase agricultural operations with the same manpower and cultivated more area per pair of bullocks, and so on.

Here are some recommendations of the Working Group. A National Institute of Co-operative Farming should be established to conduct training and reorientation courses and carry out research. The organisation of co-operative societies should be on a voluntary basis. The period for pooling land should be five years with the permission for a member to withdraw. The return for land should be paid not out of the gross produce and of farm business income. For other pooled resources like cattle implements, etc., interest should be paid on their value at agreed rate. The Managing Committee should be entirely elected without any government nominee and the general body should be supreme in regard to production, development, employment, subsidiary industries, etc. There should be an independent assessment committee to review and check up the work. There should be adequate safeguards in the organisation of societies against misappropriation of funds. A substantial part of the net profit should go to the members in the form of bonus for work and only 10% should go to the reserve fund and 15% to the development fund. Small farms should be operated as one unit and the bigger ones split up into blocks to be cultivated by groups of members. The difference in

skill and ability in the members should be properly evaluated and fairly recorded. The surplus manpower should be absorbed in cottage, small-scale and village industries set up in the villages. As for finance, greater reliance should be placed on co-operative central financing agencies. Long and medium-term finance should be provided by the land mortgage banks on the security of land. The short-term finance should be provided by central financing agencies, repaying capacity rather than tangible security being the guiding principle. Government participation in share control has been recommended for strengthening the society's share capital. Financial assistance is to be readily made available to such societies under various schemes such as Grow More Food campaign. Subsidy for managerial cost may also be sanctioned on a graded scale for three years.

Progress of Co-operative Farming

Till the end of 1963, 180 pilot projects were started and 1,200 co-operative farming societies organised, which had a membership of 24,000 and held an area of 151,000 acres. An additional 1,150 societies were organised outside the pilot project areas with a total membership of 22,800 and an area of 1,50,000 acres.

The National Co-operative Farming Advisory Board has been set up for planning and promoting the programme of co-operative farming. Also, advisory boards or special committees of the State Co-operative Councils have been brought into being for the purpose. The Third Plan lays down that preference should be given to co-operative farming societies in the grant of lands reclaimed by Government or panchayats and in the settlement of lands acquired in consequence of the application of ceilings.

An analysis of the progress made in the States shows that U.P. is leading in the organization of farming societies in the pilot areas. In U.P. 284 pilot societies have been formed holding together about 26,000 acres of land. The membership of these societies is about 5,000. This indicates that farmers with an average per capita acreage of just over 5 acres have come together.

Next to U.P., Maharashtra has organized 136 pilot project societies, pooling an area of over 15,000 acres. Punjab has set up 79 societies covering 6,000 acres, Mysore 104 societies with 10,400 acres and Madhya Pradesh 72 societies with over 14,700 acres. Madras has organized 47 societies, Rajasthan 44, Orissa 31, Kerala 33, Gujarat 24, Bihar 26, West Bengal 19, Andhra Pradesh 16, Assam 8 and Jammu and Kashmir 10.

The programme of co-operative farming in the Third Plan period envisages organisation of 320 carefully planned pilot projects of co-operative farming at the rate of one per district in selected community development blocks. Each project will consist of 10 co-operative farming societies. These projects are intended to serve as catalytic agents for further expansion and it is expected that about 4,000 societies would come into being outside the pilot areas.

A National Co-operative Farming Board has been set up for planning and promoting the programme of co-operative farming on voluntary basis. The object is to ensure effective supervision and guidance and periodical review of the programme. The States have also set up advisory boards of their own.

Ceilings on Land Holdings

Types of Land Ceilings. That there should be an upper limit (a ceiling) on individual land holdings has recently become an important issue of the day in the sphere of land policy in India. A land ceiling has two aspects, namely, (i) **ceiling on future acquisition**, and (ii) **ceiling on existing holdings.**

Land Ceilings Legislation. Most of the States have already imposed ceilings of the first type, i.e., **on future acquisition of land.** For example, in U.P. it has been put at 12½ acres, in Punjab 30 standard acres, West Bengal 25 acres, Jammu and Kashmir 22¾ acres, Rajasthan 30 irrigated acres or 90 dry acres, Delhi 30 standard acres, Assam 50 acres, Andhra Pradesh (Telangana area) 12 to 180 acres, Bombay: former Bombay area 11 to 48 acres, Marathawada area 12 to 180 acres, Saurashtra area 60 to 120 acres, Vidarbha area 21 to 120 acres, and in Mysore at 18 standard acres.

Legislation imposing **ceiling on existing holdings** has also been passed in several States, e.g., Punjab (Pepsu area) 30 standard acres, Rajasthan (Ajmer area) 50 acres, Jammu and Kashmir 22¾ acres, Bombay (Marathawada area) 18 to 270 acres, Vidarbha area 42 to 240 acres, Assam 50 acres, Andhra (Telangana area) 18 to 270 acres, West Bengal 25 acres, Himachal Pradesh 30 acres, and in Mysore at 27 standard acres. According to recent legislation (August 1963) in Kerala, the ceiling has been fixed at 15 acres for a five-member family.

As regards the **implementation of legislation** for the imposition of ceilings on existing holdings, it has been completed in Jammu and Kashmir where 4.5 lakh acres have been distributed. In West Bengal, the State Government have come into the possession of 5.24 lakh acres which is being leased out to landless workers. In Uttar Pradesh, 1.40 lakh acres have been declared surplus of which 24,000 acres have been distributed. More area will become available as implementation proceeds. In other States the implementation is in different stages.

There can be another type of land ceiling also, viz., **a limit on the land which may be resumed by the land-owner from tenants for personal cultivation.** For example, in the area of former State of Bombay a landlord can resume one-half of the area provided that together with the land held under his personal cultivation does not exceed three economic holdings (12 to 48 acres); in Jammu and Kashmir the limit resumption of land for personal cultivation is in the Kashmir Province 2 acres of wet land and 4 acres of dry land; in the Punjab up to 30 standard acres.

Basis and Level of Ceilings. Ceilings on existing holdings have been or are proposed to be fixed either **in terms of area or net annual income from land.** As many as 15 States have fixed or propose to fix the ceiling in terms of area while Maharashtra, Gujarat, Andhra Pradesh and Mysore have proposed determination of ceilings in terms of income. For example, in Andhra Pradesh, the proposed ceiling area is to provide a net income of Rs. 5,400 per year for a family of five members, and there is a provision for an additional net income of Rs. 1,200 for each member in excess of five. In Mysore, Gujarat and Maharashtra, the ceiling area is proposed to that extent of land which will yield a net income of Rs. 3,600 per year.

In States where ceilings are laid down or proposed to be laid down **in terms of area**; generally **three methods** have been adopted in order to take into account the differences in the quality of land. In some States (e.g., Punjab, Rajasthan, M.P., Orissa, Madras) the concept of "**standard acre**" has been adopted; in others separate ceiling is proposed for specified class of land (e.g., in Bihar and Kerala) and in still others the ceiling area is determined on the basis of land revenue or rent (e.g., in U.P. and Himachal Pradesh).

Basis and Method of Payment of Compensation. The basis for determining the compensation payable in some States is **land revenue assessment,** in some others, it is the **net income** derived from the land and, in a few, it is the **rent payable** on the land.

Distribution of Surplus Lands. The Second Five-Year Plan laid down that tenants displaced as a result of resumption of land by the landlords for personal cultivation, farmers with uneconomic holdings and landless workers should receive preference in the allotment of land and that such allotments should be made, as far as possible, for cultivation on a co-operative basis.

Accordingly, in six States tenants in occupation of the land and displaced tenants get first priority, in five States, co-operative farm is given top priority, and a few States have not specified the priority list.

Exemptions from Ceilings. The Planning Commission has recommended the following categories of farms to be exempted from the purview of ceiling: (1) composite enterprises such as tea, coffee and rubber plantations; (2) orchards of compact areas; (3) specialised farms engaged in cattle-breeding, dairying, wool-raising, etc.; (4) efficiently managed farms consisting of compact blocks; (5) sugarcane farms operated by sugar factories. The exemptions have been borne in mind in framing ceilings legislation. Some States have exempted co-operative societies and **Gramdan** and **Bhoodan** lands from the purview of ceilings.

In January 1959, at the A.I.C.C. session held in Nagpur a resolution on land policy was passed, which required all State Governments to pass legislation imposing ceilings on land holdings. Accordingly, during the last year or so legislation for the imposition of ceilings on holdings (or both types) has been undertaken

almost in all those States which had not yet done so. The main features of such legislation have been given above.

Although most of the States have **passed legislation fixing ceilings** on land holdings, implementation has been **disappointingly slow.** The delay in implementation seems to be defeating the very purpose of ceilings. There are of course administrative difficulties in implementing legislation, but mainly the delay is due to the fact that States have mental reservations in respect of this important land reform measure. In fact, some shrewd observers have gone to the extent of saying that the delay in enacting and implementing ceilings legislation is as if a timely notice to landlords so that they may find some loopholes in the legislation and make use of them in transferring their lands. Such a statement may appear to be too critical, but it cannot be denied that provisions against transfer and partitions made in the ceiling legislation have been so defective in most of the States that there have been large-scale **benami** transfers and changes of tenancy.

The questions of compensation and exemptions from ceilings also present some difficulties. The quantum of compensation and the mode of its payment should be so fixed as would be fair to both the old owners and the new allottees. As for exemptions, there is a feeling that in some States these cover vast areas which should not have been exempted.

Case for Land Ceilings

The main purpose of land ceilings is to bring about a wider and equal ownership and use of land than what exist at present. In other words, more people should own and use land, and smaller holders and cultivators should have more of it The following advantages may be expected to follow the adoption of land ceilings:

(1) **It will serve to lift up the size of the very pretty holdings to a basic minimum** and will thus ensure **fuller employment of agricultural population.** The distribution of the land in excess of the prescribed ceiling among the landless and the poor peasants will provide them with some or more land and thus afford greater employment. The problem of landless labourers has long been felt, but nothing practical has been done to improve their condition. However, a ceiling on holdings will go a long way towards ameliorating their condition by giving them land.

(2) When the landless and the land-poor own the land on which they now work as wage workers or tenants, they will have **greater incentive to improve the productivity of land.** They would have now no fear of exploitation by the landlords. The proverbial **"magic of ownership that turns even sand into gold"** will thus come into evidence.

(3) Wider and more equalitarian distribution of land, based on proper fixation of ceilings, would **pave the way for the achievement of a socialistic pattern of society,** which has been adopted

as the goal of our society. This it will do by reducing disparities in income and wealth in the rural sector of our economy and thus ensure social and economic justice for the bulk of the rural population. By thus bridging the gulf between the 'haves' and the 'have-nots', the **right psychological** atmosphere so essential for greater production and general progress in the rural economy would be created.

(4) More equal ownership of land thus resulting **will facilitate consolidation of holdings,** since so far big landlords have often put hurdles in the way of the schemes of consolidation of holdings. But as a result of their elimination this obstruction would be removed.

(5) Ceilings would **prepare the way for co-operative farming.** This it will do in two ways: First, a co-operative which includes from substantial holders to the landless, or at any rate, very small holders, will be more akin to a capitalistic than a co-operative enterprise since in such a case the distribution ownership dividend would be very unequal. But ceilings, by effecting more redistribution, will promote the development of genuine co-operative farming. Second, ceilings on holdings will render some area surplus on which beginnings of farming co-operatives can be made. In fact, the Government has already declared that the surplus land would be given only to those who adopt co-operative farming.

(6) When the landless or land-poor come to acquire land, they will do their best to reclaim any part of it which may hitherto have lain unused. This will result in the **extension of the cultivated area.**

(7) **Ceilings would help tenants.** Ceilings on future acquisitions mean that lands with tenants will not be acquired by moneyed landlords if such acquisitions make their holdings exceed the prescribed ceiling. Thus, tenants are not likely to be evicted because of this restriction.

Case against Ceilings

Several objections are, however, raised against the proposal for a ceiling on holdings **especially on existing holdings.** The following are the main objections.

(1) The most serious objection put forward is that ceiling on holdings is **hardly a solution for the problem of landless labour.** The surplus land so acquired will be utterly inadequate to extinguish the land-hunger of the agricultural masses. An estimate of possible surplus lands that would be available on the basis of a ceiling of 20 acres per individual owner puts it at 63 million acres in the entire country. These surplus lands would hardly suffice to give the landless and the land-poor the ridiculously uneconomic holdings of 2 acres each.

It may, however, be argued that though incapable of completely solving the problem, it will certainly ease it to some extent. Why should it be denied that something is better than nothing?

(2) The next objection raised is that **production would be adversely affected.** This would happen in two ways. While large holdings lend themselves easily to modern scientific cultivation, fragmentation caused by ceilings will lower productivity. Secondly, land will now come in the hands of those who will not have enough resources even for cultivating it.

On a more careful consideration, we shall find that this objection does not seem to be valid. Firstly, under the prevalent tenancy system a large **owned holding** does not necessarily mean a large operational unit, and it is on the latter that the economies of scale depend. Secondly, even the large farms that are personally cultivated are not always found in compact blocks. Thirdly, experience suggests that large farms are not always most efficiently cultivated. Some of the recent investigations conducted under the Farm Management Studies in the country have shown that in general the smaller farms show a higher yield per acre than the larger farms. This is largely because the smaller farms are found to be more intensively cultivated.

Thus, while on the one hand, the ceiling on land ownership will not always reduce the unit of operation, on the other hand, even if the size of the operational unit were to be reduced, one cannot be sure that productive efficiency would suffer. Fourthly, the most important requisite for increased agricultural production in India is improved technology—not tractors and combine-harvesters, but simple improvements in method of cultivation, better seeds, more and better manures, rotation of crops, pest controls, etc. These improvements do not necessarily call for large farms. Lastly, whether production will be adversely affected or not by the imposition of ceilings would depend on how the surplus land acquired is disposed of. Provided the surplus is not uneconomically utilised, production need not diminish.

As against the argument that the small cultivators in whose hands surplus lands would come as a result of enforcement of ceilings will not have enough resources to cultivate the land efficiently, it may be urged that it is the duty of the State to help them with adequate resources through various agencies.

(3) Further, it has been objected that this reform **would mean expropriation of private property**. It is true that those who are advocating land ceilings say that compensation would be paid for the excess land taken over from the owners. But, in practice the compensation is unreasonably low; so low indeed that practically it amounts to expropriation. If fair compensation is paid, **large financial resources beyond the means of the State Governments** would be needed.

As against this, it may be argued that the compensation amount would be collected from those among whom surplus land is redistributed.

(4) Ceilings mean limiting **rural incomes. Uniformity of** treatment demands that **ceilings on urban incomes be also imposed.**

If it is wrong to limit urban incomes, it is equally wrong to do so in respect of rural incomes.

The advocates of ceilings would, however, return the argument that ceiling does not mean a limit on income from land, since an agriculturist remains free to increase his income by intensive cultivation and by taking to subsidiary or secondary occupations. Moreover, land is already in a preferred position. For example, land is exempt from wealth tax while most other property is not. In agriculture rates of tax are abnormally low: land revenue is small and more or less proportional tax, while tax rates in other sectors are high and progressive. Then, sales tax is levied on very few agricultural commodities. Besides, non-agricultural sector has to contend against other restrictions such as sanctions for output, and sometimes for allocations for output, price control, etc. Ceilings on land may be a counterpart of these in agriculture.

But above all the overwhelming case for ceilings on land arises because land is permanently scarce while capital is not. And whenever a factor is scarce in relation to its demand and its quantity cannot be increased, the only alternative is to ration it out.

(5) The acquisition and redistribution of surplus land will involve an amount of **work far beyond the capacity of the administrative machinery.**

But it may be mentioned that the difficulty may be overcome by mobilizing the mass of the peasantry to do the job themselves. That is precisely how the redistribution of land was effected in China. And that is how, to a considerable extent, the consolidation of holdings is being successfully undertaken in the Punjab at present.

(6) The land available for redistribution being far too inadequate, only a fraction of the landless and land-poor can be resettled on it. It will, therefore, generate **bitter social conflict between different sections of the rural community**, specially among the agricultural workers, the tenants-at-will and the small holders, each of whom would be a claimant for the surplus land.

While there is a great deal of force in this criticism, it is not as serious as to be allowed to stand in the way of such a desirable reform. It should be possible to devise measures to mitigate such conflicts of interest.

(7) It is feared that ceilings **would reduce the marketable surplus** of agricultural products, since it is the present bigger farmers who sell a large proportion of their foodgrains output.

But as Asoka Mehta Committee has concluded, it is also the big farmers who, because of their greater holding power, hoard the stocks and thus reduce the surplus coming to the market. If this conclusion is correct, we should expect that ceilings would rather effect an improvement in this respect.

Conclusion. The objections to ceilings on land holdings thus appear to be based more on ignorance or prejudice than on sound reasoning. Indeed, the imposition of such ceilings and the redistribution of the surplus land appear to be the next logical steps after the abolition of intermediary rights in the re-organization of Indian agriculture with a view to imparting to it health and vigour.

CHAPTER IX

The Agriculturist and His Equipment

Agricultural efficiency depends as much upon the economic and legal status of the cultivators as upon the type of implements used, the quality of the soil and the size of the holding. Contradictory views have been expressed about the Indian peasant. Dr. Voelcker in his able report on agriculture in India admired "the careful husbandry combined with hard labour, perseverance and fertility of resources of the Indian agriculturist." The Agricultural Commission also admitted that "in the conditions in which the ordinary cultivator works agricultural experts have found it no easy matter to suggest improvements."[1]

The truth is that where circumstances are favourable the Indian peasant shows resourcefulness. But where rainfall is precarious or systems of land tenure oppressive, these qualities get undermined. Generally, however, Indian peasants are below the standard of physical and mental fitness found in other countries. The causes of this backwardness are partly historical and political, partly social and climatic. The emphasis laid on one cause is, therefore, the result of the writer's political creed or personal prejudices.

Whatever the causes, no one can deny the fact that the Indian cultivator is inferior in health and energy to his counterpart in U.K. and U.S.A. He is a prey to a host of diseases. These kill many, and undermine the physical efficiency of those who survive. People chronically subject to disease become lethargic. The solution of this problem calls for both preventive and curative measures.

With better physical health and with education of the right kind the outlook of the villager will change. At present he is condemned as ignorant, superstitious, and improvident. It is said that he lacks initiative and has no desire to improve his standard of living. If he gets larger income due to higher prices, he wastes

1. Report, p. 14.

it on social ceremonies or litigation. All these defects are curable by right education. In the Five-Year Plans, a nation-wide effort is being made to better the lot of rural areas through Community Projects. More fertilizers, better seeds, efficient implements and more water are being supplied. Better and more education is being provided. As a result records of production of various crops are being beaten and better villages are being built.

We shall now take up some problems facing the Indian farmer.

Soil Erosion

We have seen that the size of an economic holding is closely related to the nature of the soil. Where soil is fertile, a small holding will support a family, and where it is inferior, a much larger area is needed. Physically the soil should be firm enough to hold the roots and soft enough to allow free movement of water. Chemically it should contain a balanced quantity of essential salts. From the opinions of Dr. Voelcker, the Royal Commission on Agriculture, Sir John Russel and other experts, it is seen that although positive data are lacking, available tests show that Indian soils have reached the lowest stage of deterioration.

Causes and Extent

Apart from exhaustion, the soil may deteriorate through erosion, by coming up of injurious salts or through water-logging. The surface soil is washed away through excessive rains and floods.

Soil erosion may occur due to several causes: (i) cutting of trees, (ii) removal of vegetation which exposes land to wind and rain, (iii) uncontrolled grazing, (iv) cultivation on hill slopes, and (v) wind.

The problem of soil erosion has manifested itself mainly in U.P., West Bengal and Punjab where a network of ravines has been formed through this process. Due to heavy rainfall on hill-sides, soil erosion has also occurred in parts of Bombay and Madhya Pradesh. In U.P., 8 million acres have been lost in this way. Only in one district of the Punjab, viz., Hoshiarpur, one lakh acres have been rendered unfit for cultivation. Either the land has been swept away or it has been covered with sand through floods. Deserts in Rajasthan covering 50 million acres are also being eroded and are creating conditions of soil erosion in nearby areas. The Rajasthan desert has been spreading at the rate of about half a mile per year for the last 50 years and is encroaching upon nearly 50 sq. miles of fertile land every year. Bijapur district, three centuries ago, was known as the "Granary of the Deccan", but today is a chronic famine area. This is on account of soil erosion caused by wind. Districts of Hissar and Bhatinda in the Punjab are examples of this type of soil erosion. U.P is also suffering in areas bordering Rajasthan. It has been estimated that about 200 million acres of land, that is almost a fourth of the country's land surface, is suffering from soil erosion.

Soil erosion is not peculiar to India. In U.S.A., "millions of acres of land which were once cultivated have been destroyed by gullying."[1] U.S.A. has, however, fought a winning battle. More than 300 million trees have been planted under the programme of shelter belts. Experts have been trained to give advice. Thus fields once barren are yielding good crops every year. India is following the same methods to fight erosion of soil.

Consequences

The harm done by erosion is two-fold: (1) The productivity of the soil is greatly reduced by the progressive removal of the nutritive chemicals which lie in the first few inches of the surface. (2) Not only is the fertility reduced but the area under cultivation also goes on progressively declining on account of soil erosion. The formation of ravines or heavy deposits of sand reduce the area fit for cultivation.

Remedial Measures

The remedies are afforestation and preservation of forests, contour bunding, regulation of land use, terracing, gully plugging, check damming, and control of grazing. Digging of contour trenches is useful. Embankments can be built by the cultivators to prevent water from flowing down at great speed. The hill torrents (chos) should be trained and made to flow into certain prepared channels. This will minimise the mischief. A Central Soil Conservation Board was set up in 1953. Almost all States followed suit.

Measures against soil erosion provided in the First Plan include: (i) All-India survey for assessment of the magnitude of the problem; (ii) establishment of a Soil Conservation Branch at the Forest Research Institute, Dehra Dun, to conduct research on the various problems connected with soil erosion; (iii) encouragement of the formation of co-operative soil conservation associations among farmers; (iv) passing of suitable legislation empowering State Governments to enforce conservation; (v) desert immobilisation scheme to check the advance of the Rajasthan desert towards Delhi and U.P., by creating a five-mile vegetation belt along its Western border; (vi) setting up of a suitable organisation both at the Centre and the States to implement the programme. Accordingly, a Central Soil Conservation Board has been set up. It has also been decided to establish six institutes for training personnel for soil conservation work.

Contour bunding and terracing were carried out over an area of 7 lakh acres during the First Plan and 20 lakh acres during the Second Plan. The Third Plan envisages the extension of these operations to 110 lakh acres. During the Second Five-Year Plan soil conservation work was undertaken over two million acres of land in seriously eroded areas. Erosion control programme was accompanied by appropriate programmes of education and re-

1. Wadia and Merchant—*Our Economic Problem*, p. 158.

settlement of groups whose main occupation was goat-herding resulting in denudation of vegetation on hills.

To check the advance of desert sands, improved dry farming practices are to be introduced. Work on demonstration projects started during the Second Plan is being continued during the Third Plan so as to cover an area of about 2.2 crore acres. Fencing and rotational grazing and afforestation are other useful remedies. Afforestation and other soil conservation measures in the catchment areas of river valley projects were carried out over about 1.40 lakh acres during the Second Plan and will be extended to 10 lakh acres during the Third Plan. Other soil conservation programmes during the Third Plan include reclamation of about 2 lakh water-logged, saline, and alkaline lands and about 40,000 acres of ravine lands. Village Panchayats are to be made responsible for soil conservation. They will be given technical and financial assistance as required.

Soil conservation programme during the Third Plan is proposed to be stepped up considerably. An outlay of Rs. 72 crores has been provided for the execution of these programmes as against Rs. 1.6 crores spent in the First Plan and Rs. 18 crores in the Second Plan.

Livestock

Apart from land, the next important equipment of the agriculturist is his cattle. In fact, Indian agriculture without cattle is inconceivable. The Indian cultivator has a small and fragmented holding and limited resources so that he cannot afford to use mechanical sources of power to carry on agricultural operations. His cattle serve the farmer in so many ways that it has been rightly said that the cow bears on her patient back the entire burden of Indian agriculture. "Without them," says Darling, "the fields remain unploughed, store and bin stand empty, and food and drink lose their savour, for in a vegetarian country, what can be worse than to have no milk, butter or ghee?" On account of his small holding and limited resources, it is not practicable for the peasant to cultivate his field with the aid of machines. For ploughing his fields, for lift irrigation and for carting his produce and manure, cattle are indispensable. They are not only a source of milk but also supply manure and fuel when alive, and meat, skins, hair and bones when dead. It has been estimated that Indian cattle, in spite of their being uneconomically exploited, yield an annual income of over Rs. 1,265 crores which is more than the value of India's cash crops.[1]

In spite of the importance of cattle of India, however, there are certain unfavourable features which deserve attention. India is supporting too many cattle to be economical. According to the 1961 quinquennial livestock census, there are in India 33.65 crore

1. Ward in *Economic Problems of Modern India*, Vol. I, edited by R. K. Mukerjee, p. 140.

cattle, 5.11 crore buffaloes, 4.03 crore sheep and 6.08 crore goats in the country. The large cattle population is more of a liability than an asset.

Roughly we have 98 cattle for every 100 acres sown with crops. Holland has 38 cattle and Egypt 25, and yet we have no pasture lands as other countries have.[1] Thus India possesses a very large number of superfluous cattle. The number of working cattle comes to 69.7 million, and it is these that matter for agriculture. Thus, as in the case of our human population so in that of the cattle population, we are carrying a heavy dead-weight. They are considerably in excess of our fodder measures At least one-third are surplus in relation to the available supplies of dry fodder. Position is much worse in relation to green fodder and concentrates. Inadequate nourishment and careless breeding have led to poor quality of cattle. The average yield of milk per cow yearly is nearly 400 lbs in India as compared to 5,000 lbs or more in advanced countries.

There are various reasons for the excessive population of cattle in this country. The prejudice against destroying life is so strong among the Hindus that they would rather starve cattle than kill them. Secondly, due to the inefficiency and high death-rate of cattle the cultivator had to maintain a large reserve The close connection between "inferior quality" and excessive in numbers proves the existence of a vicious circle.

The inferior quality of Indian cattle is also due to wrong breeding, underfeeding and disease. Meal, mating and malady or diet, descent and disease are the three aspects of our cattle problem. These are all inter-connected.

Indian cattle roam about on the village commons or on the stubble in mixed herds. Cows are thus covered by indifferent bulls and progressive deterioration of the breed starts. To improve quality, breeding should be selective.

The Indian Agricultural Research Institute, Delhi, carries on experiments to evolve strains with better milking capacity. To improve milking breed, cross-breeding with Indian sires of high milk-yielding strain has been successful. Mention may also be made of the technique of artificial insemination.

The object of Government policy in regard to development of animal husbandry in the country is to develop the milk yielding capacity of well-defined milk breed by selective breeding and upgrading of non-descript cattle and improvement of draught breeds in milk yielding without impairing the quality of the bullocks. These objects are sought to be achieved through Key Village Scheme, Gaushala Development Scheme, Gosadan Scheme, etc. The All-India Key Village Scheme was initiated during the First Plan period with a view to increasing milk production and raising the productive efficiency of cattle in the country and was continued

1. Figures for crops pertain to 1953-54 and for cattle to 1956.

with expanded scope during the Second Plan. During the First Plan, 146 key village blocks were established with artificial insemination centres. During the Second Plan 196 new key village blocks were taken up and 114 old blocks expanded. In all by the end of the Second Plan, 2,000 key village units were established. In the Third Plan, which provides Rs. 54 crores for animal husbandry, 10 key village units will be provided in each block. Central artificial insemination centres will also be established.

Indian cattle are underfed because (a) area available for growing fodder is not enough, and (b) the system of feeding is wasteful. Dry cows and non-working cattle are left to themselves to eke out what they can from the waste lands. The problem can be solved by (i) reducing the number of bad cattle, (ii) by controlled breeding, and (iii) by increasing the supply of fodder. Supply of fodder, however, can be increased to a certain extent by cultivating higher-yielding crops like Egyptian clove **(berseem)** and other grasses. Available fodder can also be economized by stall feeding, by preparing silage from inferior straw, by preserving grass like hay, and by chopping fodder with the foddercutter. During the Second Plan, the programme for the development of feeds and fodder was taken up almost in all States and pasture development programme was also initiated. Among the measures proposed in the Third Plan are work on forage improvement at livestock farms, establishment of forage demonstration plots in villages, distribution of planting materials, conservation of surplus fodder, feeding of stitched cattle on balanced ratios, adoption of improved cultural practices and establishment of demonstration-cum-training centres. A fodder bank to serve during periods of scarcity was established during the Second Plan and two more such banks will be established during the Third Plan.

Indian cattle are subject to periodic epidemics like rinderpest and foot and mouth disease. These diseases are due to low vitality, unhygienic surroundings and polluted drink water. Both preventive and curative measures are necessary. Research into the causes, prevention and cure of diseases is carried out at the Veterinary Research Institute at Izat Nagar and excellent results have been achieved. By the end of Second Plan, 4,000 veterinary hospitals and dispensaries had been established of which 650 were set up during the First Plan and 1,900 in the Second Plan. The number is expected to go up to 8,000 by the end of the Third Plan and every development block will have at least one veterinary hospital or dispensary. The total outlay in animal husbandry in the First Plan was Rs. 8 crores and in the Second Plan Rs. 21 crores. The Third Plan makes a provision of Rs. 54 crores for animal husbandry. The object of Government policy in regard to the development of animal husbandry in the country is to develop the milk yielding capacity of well-defined milk breeds by selective breeding and upgrading of non-descript cattle, and improvement of draught breeds in milk yield without impairing the quality of bullocks.

We may conclude, therefore, by saying that what India wants is **not more cattle but better cattle.** The average per capita consumption of milk in India is estimated to be 5 ozs. compared to 15 ozs. required for balanced nutrition. We must, therefore, increase the milk supply in the country by 30% to 40% in the next 10 years to provide more milk. The total production of milk, which was estimated as 17 million tons in 1951 and 19 million tons in 1956 is estimated now (1961) at 22 million tons and it is expected to go up to 25 million tons at the end of the Third Plan. Good milk is an urgent problem in urban areas. During the Second Plan, therefore, it was proposed to organise 36 urban milk supply schemes, 12 co-operative creameries and 7 milk drying plants. Pedigree breeding stations will also be established during the Third Plan, 55 new milk supply schemes will be taken up in cities. It is proposed to establish 8 creameries, 4 milk product factories and 2 cheese factories. One milk powder factory has been established at Amritsar and the other at Rajkot. The First Plan provision of Rs. 7 81 crores was almost fully utilised for dairy development. In the Second Plan, a sum of Rs. 12.05 crores was utilised against a provision of Rs. 17.44 crores A sum of Rs. 36 crores has been made in the Third Plan for dairy schemes.

MECHANISATION OF AGRICULTURE

Like every workman, the agriculturist also needs tools to carry on his agricultural operations. The tools and implements used by the Indian farmer are, for the most part, crude, simple and antiquated and are far from the best that should be utilized for efficient and successful cultivation. The Indian farmer still relies even in this machine age on the centuries-old wooden plough to turn the land, the crude sickle to harvest crops and the wind for winnowing cereals.

In sharp contrast to the primitive tools and implements, which are in use in India, stands the most up-to-date farm machinery used by farmers in most of the countries of the West and in the U.S.S.R. Agriculture in those countries has been mechanised. In fact, on account of such mechanisation, these countries have experienced an agricultural revolution comparable to the Industrial revolution of the 18th and 19th centuries. This modernisation of agriculture through the process of mechanisation has played a very significant part in bringing prosperity to cultivators by ensuring for them better crops at reduced costs. Its part has been equally great in the reclamation of barren lands into flourishing agricultural colonies. So has been its role in elevating rural life to a new and higher plane. Some beginning has been made in the mechanisation of Indian agriculture also.

Meaning of Mechanisation

Mechanisation of agriculture consists of replacing or assisting (or both) animal and human labour in farming mechanical power wherever possible. Tractor ploughing dispenses with the

draught animals and the wooden ploughs. The combine-drill performs the operations of sowing and putting the fertilizer simultaneously. The combined harvester-thresher has simplified the work of reaping and threshing into a joint process, rendered obsolete the use of sickle, etc. Thus mechanisation means the employment of machinery in one way or the other in almost all farming operations, ranging from breaking up the soil to the marketing and sale of the produce of the farm.

What should be the role of mechanisation in the re-organisation of our agriculture to contend with agricultural inefficiency and poverty is a vital question indeed. But unfortunately, on this important question, there is no consensus of opinion among economists and politicians in the country. There are some who regard mechanisation of Indian agriculture as highly necessary and desirable. They consider it a sheer waste of the country's limited resources to continue the use of outmoded implements and primitive techniques when science has placed at our disposal new and highly efficient means. They, therefore, want Indian farmers to mechanise agriculture, which will result in more and better production and consequently in a high standard of living for them.

But, on the other hand, there are others who think mechanisation to be wholly unsuitable for the country. They think the economic and social conditions in India are widely different from those in some foreign countries where mechanisation has proved profitable.

Case against Mechanisation. In main, the case against mechanisation is built on the following arguments:—

(1) It is pointed out that the holdings in India are too small and scattered to permit mechanisation of her agriculture, and that a large farm is a pre-requisite for mechanisation. In the U.S.S.R., Canada and the U.S.A., where mechanisation has been widely adopted, the average size of holdings is quite large. The average size of holdings is 1,600 acres in the U.S.S.R., 234 acres in Canada and about 145 acres in the U.S.A. On the other hand, the average size of holdings in India is very small. It varies between about 3 acres in West Bengal, Bihar and Orissa and about 12 acres in the erstwhile Bombay State. Obviously on such exceedingly small holdings, mechanisation is simply out of the question. They are uneconomic even for the wooden plough and a pair of bullocks. Hence it is concluded that mechanisation has no scope in the country.

(2) Another serious objection to the introduction of mechanised farming is that it would aggravate further the unemployment and under-employment in rural areas. Since one machine performs the work of many labourers, it is held that millions of workers in agriculture will be thrown out of employment. It

is also felt that to find alternative jobs for the displaced persons on such a large scale will be too difficult to solve.

In this connection it is also pointed out that mechanisation became necessary in countries like the U.S.A., because of the acute shortage of labour for the extension of cultivation. But in our country, there is, on the contrary, an abundance of cheap labour. Therefore, as long as agricultural labour is cheap and there are too many people on the land, the use of labour-saving devices is neither feasible nor desirable. As Mahatma Gandhi put it, "Mechanisation is good when hands are too few for the work intended to be accomplished. It is an evil when there are more hands than are required for the work, as is the case in India".

(3) Further, some economists are of the view that mechanisation does not lead to greater productivity. What mechanisation increases, they hold, is productivity per worker employed and not the productivity per acre, which is required.

(4) With the adoption of mechanised farming the huge cattle population which we have will be rendered surplus. We cannot suddenly cut down their number.

(5) It is pointed out that the coal supply of mineral fuels is still very deficient in India, so that it would be very costly to make use of petrol or diesel oil tractors, etc., if fuel oils are to be imported from abroad in vast quantities. There will thus be a great drain on our foreign exchange resources, which are already very meagre.

(6) Most of the agricultural machinery being imported, its cost is far too high. The prices charged for spare parts in particular are often exorbitant and their supply subject to serious delays. As the recent German Delegation (1958) pointed out, more than one-third of the 30,000 tractors in India are out of operation, because it is impossible to obtain the necessary spare parts for their repairs. The facilities for repairs being negligible, even minor breakdowns put machines out of commission for a long time and involve disproportionately high repair charges.

(7) The illiteracy and the poverty of the peasantry are other serious obstacles to the mechanisation of agriculture. He neither understands the working of the complicated farm machinery nor is rich enough to afford costly machinery.

Objections Answered

The question of mechanisation may be looked at from two viewpoints. The first is that of its immediate applicability. The second one relates to the place that mechanisation should be given in the future agricultural economy of the country. So far as its immediate applicability is concerned we shall towards the end of this discussion point out certain spheres where mechanisation can be resorted to without its undesirable effects. Apart

from them, mechanisation should be looked at from the viewpoint of our future policy.

If we look at the problem from the viewpoint of our future policy, then the first objection that agricultural holdings in the country, as they are found today, are too small for mechanisation may not be valid as joint co-operative farming has been set as the goal of our agrarian economy and every effort is being made by the Government to make it a success. With the adoption of joint co-operative farming on a large scale in the country, the size of the farm will increase, in which case mechanisation will become easier, perhaps even necessary. The unit of cultivation is also being increased by other measures like the consolidation of holdings.

Besides, when we say that holdings in India are small, that does not mean that there are no large holdings. Some of our holdings are big enough to be mechanised and in fact on some of them modern machines are being used with advantage.

Again, while examining the question of the size of the holdings vis-a-vis mechanisation one should not think that holdings must be very large, running into hundreds of acres. In the beginning, of course, tractors and other machinery were essentially built for very large holdings. But now the position has greatly changed. Small tractors and other machines suitable for work on small holdings of 20 to 50 acres have been available. Now small all-purpose tractors of very low horse-power specially designed to meet the economic and technical needs of lower acreage are available. As such it is now possible to mechanise even comparatively small farms.

As regards the fear of unemployment consequent upon mechanisation, it may be pointed out that some amount of unemployment is inevitable, but the magnitude of unemployment that will, thus, be caused is grossly exaggerated and the capacity of the economic system to absorb the displaced persons is greatly underestimated. This overestimation and underestimation respectively is highly unwarranted. Mechanisation of agriculture will help in lifting the economy of the country to a higher level. As a consequence, secondary and tertiary occupations will multiply at an increasing rate offering adequate employment to the surplus workers. Moreover, as the tempo of economic development gathers momentum, more employment opportunities will be created outside agriculture.

Again, the contention that mechanisation does not lead to greater productivity per acre is not valid. The Government of the U.S.S.R., in its own country as well as in our country at the mechanised farm at Suratgarh (Rajasthan), has demonstrated beyond doubt that productivity per acre greatly increases with the introduction of mechanised farming. It has been found that there is a great difference between the productivity of the pre-

mechanisation period and that after the introduction of mechanisation.

As regards the objection that a large cattle population will be rendered surplus with the adoption of mechanised farming, we must fairly admit that the reduction in their number by a phased programme is absolutely essential. An enormous number of bullocks are employed not only for agricultural operation in the field, but also for lifting water from wells, grinding corn and crushing oilseeds and sugarcane. This large cattle population undoubtedly makes large demand on the none-too-abundant agricultural output of the economy. In fact, in many parts of the country there is already a serious competition between man and cattle for subsistence from land.

Thus there is a great need for the reduction in the number of bullocks. For this mechanisation is essential. A tractor, unlike a bullock, does not derive its motive power from the produce of the soil. As such its use will lighten the burden on land and release a certain area for the growing of food crops.

As regards the question of the shortage of mineral fuel supply in the country, it may be pointed out that recently oil has been struck at several places in the country, so that the prospects in regards to the supply of mineral oil are quite bright. Moreover, the programme of rural electrification is being progressively implemented under the Five-Year Plans, which will greatly facilitate the introduction of mechanisation.

Again, the remarkable progress of iron and steel industry and machine-making industry in the Second Five-Year Plan has made possible the production of agricultural machinery within the country in a large number.

From the above discussion, it is obvious that as regards future agrarian economy, we see no technical reason which may render mechanisation impossible or harmful.

But even from the viewpoint of its immediate applicability, the scope for mechanisation in the country is not inconsiderable. There are certain operations and areas in which the use of tractors has distinct advantages. To begin with, there is the reclamation of waste and weed-infested lands. The utility of tractors for reclamation operations has been demonstrated by the Central Tractor Organisation which has been working in the Terai area of U.P. and kans-infected tracts of Madhya Pradesh.

Then comes the cultivation of land in sparsely populated areas where there is a shortage of labour. While the pressure of population is generally heavy in the country as a whole, there are thinly-settled areas, particularly in the former Madhya Bharat and Vindhya Pradesh areas of M.P. and in Rajasthan, etc., where labour shortage is an important limiting factor in the expansion of cultivation. Mechanised cultivation in such tracts has obvious advantages.

There are also the drainage and soil conservation operations such as contour bunding, terracing, ridging, etc., for which tractors are particularly suited. The need for such operations is quite obvious in parts of practically all States.

Apart from tractors for the above-mentioned purposes, there is the need for mechanisation for purposes such as water-lifting for irrigation by means of pumping sets and electrically-operated tube-wells. Electric motors and diesel engines, etc., can also very usefully be adopted for other agricultural operations, such as cane and oilseed crushing, grinding, etc. Mechanisation is also justified where the use of mechanical equipment would economize labour and cattle power at the time of maximum pressure on them, e.g., in threshing.

Conclusion. Thus we see that mechanisation has considerable scope, both in respect of its immediate practicability and in the future agrarian economy of the country. Arrangements must be made for hiring the machines individually or collectively so that poor peasants can also avail of them. Credit on easy terms may also be provided to those who want to purchase them. Further, it will be necessary to spread a network of tractor stations for repairs, spare parts and servicing facilities. Demonstrations of tractor farming may also be given frequently at agricultural fairs and other gatherings to arouse the interest of the cultivators.

It is gratifying to note that energetic steps are being taken on the above lines. Appreciable beginnings in the mechanisation of our agriculture have already been made. In 1947, the Government of India set up its Central Tractor Organisation, the biggest organisation of its kind in Asia. In 1951, it purchased a fleet of 240 tractors with a loan from the World Bank and has added to this number further since then. However, in 1960, it was decided to close this organisation largely because foreign exchange was not available for the purchase of new machinery. Some of the State Governments have also set up their own tractor organisations, which, besides jungle-clearing and reclamation of waste lands, lend tractors to the cultivators on hire.

Besides the Government, enterprising landlords have also begun to make increasing use of tractors. This is clear from the rising imports of tractors. While 3,318 tractors were imported in 1949-50, in 1951-52, 7,400 valued at Rs. 6 crores were imported. Since then, however, there has been a marked decline in tractor imports. The decrease in imports is mainly due to the fact that the large cultivators are now less willing to invest money in tractors because of the fear of ceiling on land holdings. On the other hand, some of the bigger cultivators have acquired tractors recently because of a feeling that those who adopt the mechanical means of cultivation would be exempted from land ceilings.

Active steps towards the manufacture of tractors within the

country are also being taken. A firm in Madras is already assembling a famous make of British tractors. Another concern has started working in Orissa under arrangements with a German firm.

Besides tractors, other power-driven machines, electric motors, diesel engines are becoming increasingly popular in rural areas as water-lifting appliances. To encourage their use many of the State Governments are, under the G.M.F. Campaign, providing assistance in the form of loan which the farmers can repay over a period of years. The power available from these engines can also be used for other agricultural operations, such as cane and oil-seed crushing, grinding, etc. Thus, the success of these beginnnigs is quite encouraging.

Despite the above developments, complete mechanisation of Indian agriculture is a very far off prospect. By and large Indian agriculture will continue to depend upon animal power for a long time to come.

CHAPTER X

Agricultural Labour

The Problem. The Physiocratic leader, Quesnary, once said, "Poor peasant, poor king, poor country". This may not be true of all countries, but it is certainly true of India where 70% of the people are engaged in agriculture and yet cannot produce food enough to meet the needs of all.

The problem of agricultural labour has assumed great urgency in India. The ranks of agricultural labour have been fast swelling. Their economic condition, on the other hand, has been steadily deteriorating. They are perhaps the most neglected section of the Indian people. While increasing attention was paid during the last quarter of a century to protect industrial labour, nothing was done till recently in regard to much more numerous class of agricultural labour. After India won her freedom, however, the Government have awakened to the urgent need for improving the condition of the village labour and efforts are being made through legislation and otherwise to do so. To leave out agricultural labour in any scheme of agrarian reforms today would be to leave a weeping wound unattended.

Agricultural Labour Enquiry

In recent years, the Government of India conducted two comprehensive inquiries into the conditions of agricultural labour in which very useful data regarding employment, unemployment, wages and earnings, income and expenditure, indebtedness, etc., were collected. The first inquiry was conducted in 1950-51 in 800 villages covering 11,000 families. The report was published in 1954-56. The Second Agricultural Labour Enquiry was conducted in 1956-57 in 3,600 villages covering 28,560 sample agricultural labour households. The report of the second enquiry was published in 1960.

According to the census of 1951, the number of cultivating labourers in the country was 4.9 crores, constituting about 20% of the total agricultural population. The Second Agricultural

Labour Enquiry 1956-57 revealed that in India agricultural labour families formed 24.47% of the total rural families. The total number of agricultural labourers who were actual workers was 35 million. More than half of them were without land, while the rest owned only tiny bits of land, so that even in their case the bulk of their income, i.e., 73% (64% in 1950-51) came from wage employment on others' farms. About 85% of the agricultural workers are casual workers. About 15% of them are attached to landowners.

The per capita annual income in 1956-57 was Rs. 99.4 (Rs. 140 in 1950-51) as compared to the national average in the same year of Rs. 291.5. The average annual income of an agricultural labour household was Rs. 437 (Rs. 447 in 1950-51). On average they were employed for 197 days (218 in 1950-51) in the year. About 15% of agricultural workers were attached landowners. Some 16% of them had no wage-earning employment at all during the year. It has been estimated that one-fourth to one-third of the existing agricultural labour is surplus. The growth of population has accentuated the problem. In the beginning of the present century, 62.5% of the working force was engaged in agriculture and by 1951 the proportion stood at about 70%. These few facts are enough to show how pitiable is their lot and how urgent it is to improve it.

Rate of Wages and Methods of Payments

Trustworthy statistics regarding wages of agricultural labour are not available, owing to the prevalence of wages in kind and existence of supplements and concessions which differ from place to place. Field labourers are often paid in kind. They receive a share in the crop with other customary dues. In spite of the rise in wages during the last decade, labourers have suffered much from the high prices due to the time lag between wages and prices. The Agricultural Labour Enquiry reveals that now cash payments and time rates are the predominant mode of payment to agricultural workers.

As a class, agricultural labour gets lower wages than industrial labour. The reasons are as follows:—

(i) The scattered nature of work, lack of organisation among the labourers and the seasonal character of agriculture reduce their bargaining capacity.

(ii) There is a social exploitation as labourers belong mostly to the depressed classes.

(iii) There is no legislation governing hours or other conditions of work as regards agricultural labour.

(iv) Landlords keep a labour reserve by giving them loans.

To make matters still worse for them, they have also to face long periods of unemployment. Recent inquiries suggest that period of employment for agricultural workers ranges from three

to six months, interspersed in different seasons during the year. The Agricultural Labour Enquiry (1950-51) revealed that in a year on the average an agricultural worker remains employed for 218 days in the year, self-employed for 50 days, on wages for agricultural labour for 189 days and non-agricultural labour 29 days.[1] The heavy incidence of unemployment is a major cause of low incomes of agricultural workers. During the periods of unemployment, agricultural labourers get into debt. Having no security to offer, they fall an easy prey to the utmost exploitation of the money-lenders. This is another part of their tale of woe. They live mostly on semi-starvation level.

Minimum Wages Act, 1948

This Act provides that every State Government within three years should lay down minimum wages for people working in agriculture.

The rich peasants had benefited by the war-time boom in prices, but as the agricultural labour had nothing to dispose of, his condition did not improve. The Government, therefore, thought it necessary that the minimum wages of agricultural labour should be fixed keeping in view local costs and standard of living. Accordingly, a comprehensive enquiry was started in 1949 into Agricultural labour conditions in about 2,000 villages.

During the First Plan wages were fixed throughout Punjab, Rajasthan, Ajmer, Coorg, Delhi, Himachal Pradesh, Kutch and Tripura. In seven other States, the minimum wages have been fixed in specified areas. During the Second Plan minimum wages were to be prescribed in all States and for all areas.

There are, however, big obstacles in the way of enforcement of the Minimum Wages Acts.

Owing to the already excessive and further growing pressure of population on land, the ranks of agricultural labourers are daily swelling. Whatever wage rate the Government may prescribe, the worker will be willing to accept lower wages.

Also the employment in agriculture is only seasonal and intermittent. Hence the workers prefer lower wages to unemployment.

The workers are illiterate and widely scattered. They have no organisation worth the name. The wages could be enforced through collective bargaining which is simply out of the question in the absence of workers' organisation.

Most of the agricultural workers belong to the low castes and are socially handicapped. How can they assert themselves for the protection of their rights? They are so many dumb-driven cattle.

Moreover, wages in rural areas are largely governed by custom. A departure from custom is not easy.

1. Agricultural Situation, May, 1959.

The indebtedness of the labourers to the landowners places them in their power. They have to accept lower wages.

The sites on which their houses are built do not belong to the labourers. They belong to the landowners of the village. This has the vicious effect of binding the workers to their employers irrespective of the wage.

Lack of inter-regional mobility also stands in the way of uniform wage in an area.

There is also no agency which can enforce the Minimum Wages Act. In view of the widely scattered nature of agriculture and illiteracy, it is well nigh impossible for the Government to set up an effective and adequate agency to check up and enforce wages prescribed by it.

In addition to the immensity of the task of collection of wage statistics in India, there is also the problem of inspection and checking. Agricultural labourers are scattered in villages. The problem, therefore, is all the more difficult to handle. Hence it is suggested that our immediate task should be to make agriculture a paying industry and to organise labour for collective bargaining between masters and men rather than to extend the Minimum Wages Act to rural areas. The Government have, however, committed themselves to improving the condition of agricultural labour.

Agrarian Serfdom and its Remedies

The Agrarian Reforms Committee mentions land labourers who never receive cash payment and are no better than serfs. The Colis in Bombay, the Puleyan in Madras, the Kamya in Bihar, the Chakar in Orissa, the Shalkari in Madhya Pradesh are some of them. They are practically purchased by their owners. Hallis in Bombay are no better off. They usually get a small ration of foodgrains. The Halli becomes a life-long serf of the master who even purchases a wife for him. Some of these labourers perform begar or forced labour. In States where there is sub-infeudation, the evil is much worse. The villagers have to render some days' forced labour to the landlord to pay nazranas in cash as well as to give a portion of the fowls and goats. The Indian Constitution has made serfdom a penal offence. In course of time, therefore, begar will be eliminated and the status of the landless labourers improved.

Abolition of zamindari has been enacted in most States. Laws have been passed to help tenants and labourers. But such laws can never be effective unless labour is organised and can make their influence felt. The Agrarian Reforms Committee suggested that there must be a country-wide organisation of labourers, whose objective should be to carry on propaganda for lifting "this huge mass of population from sub-human levels of existence, which, in some places, have run to such depths as living on snails, rats and grains picked from cow-dung". The

labourers should be no longer exploited by the rich. The clash between rich and poor should be checkmated by organised unions of agricultural labourers, otherwise conflict may lead to bloodshed. To organise the vast number of agricultural labourers, who are scattered over vast areas, into unions is not going to be an easy task. Their ignorance and illiteracy add to its toughness. Many of them belong to the depressed classes who still form an inferior stratum of society. The political worker has so far been more busy in industrial areas. Besides, demand for labour in the village is casual and seasonal. The Kisan Sabhas, too, have so far almost neglected agricultural labourers. All this hampers efforts at organising rural labour.

Having diagnosed the condition of the agricultural labour, it is easy to suggest the remedies. But since the disease is the outcome of several unfavourable factors, there cannot be any simple or single remedy. The problem has to be tackled at several fronts. But tackled it must be. As has been well put by the Agrarian Reforms Committee (1950): "To leave out the problems of agricultural labour in any scheme of agrarian reforms —as has been done so far—is to leave unattended a weeping wound in the agrarian system of the country." The continuance of such revolting conditions for such a large mass of population is sure, sooner or later, to lead to social and political upheavals. It is, therefore, very essential that suitable remedial measures must be taken to improve their lot.

The following measures suggest themselves:—

1. **To begin with,** agrarian serfdom must go at once. There is no doubt that our Constitution declares serfdom in any form a penal offence. But owing to the force of custom, social backwardness and economic helplessness of those classes of agricultural labour which are at present the victims, this serfdom may actually linger on unless vigorous efforts are made to eradicate it.

2. The most important step will be to **raise the wages of agricultural labour** from the present appallingly low levels. For this minimum wages should not only be fixed but energetically enforced in all States. These minimum wages should be so fixed as to provide the agricultural labourer at least a fair subsistence.

It is gratifying to know that the Government has been alive to the urgency of the problem. Accordingly, the **Minimum Wages Act** was passed in 1948. Under this legislation, minimum wages for agricultural workers have been fixed throughout the States of Punjab, Rajasthan, Orissa, Kerala, Delhi and Tripura, and for specified areas in almost all other States. The minimum wages fixed through State action range between Re. 0.62 and Rs. 1.50 in different States of the Indian Union. It is, however, pointed out that much benefit does not seem to have accrued to the agricultural labourers in view of the absence of adequate enforcement machinery under the Act.

3. **Reclamation of culturable wastes** and the development of co-operative farms of landless labourers on such reclaimed lands. A good number of them could thus be settled on these farms. Accordingly, provision was made for such resettlement schemes in the First and the Second Five-Year Plans, and in recent years about 30 lakh acres of cultivable waste land have been distributed.[1] A number of State Governments have taken steps to provide house-sites free or on a subsidised basis to landless agricultural labourers. The Third Plan provides Rs. 4 crores for settlement plans by the States and Rs. 8 crores by the Centre and 7,00,000 families of landless labourers will be settled on 5 million acres.

4. **Land gifts for landless workers.** Landholders should be encouraged to make **land gifts to landless workers.** The credit for starting this movement, called **'Bhoodan Yajna'**, goes to Acharya Vinoba Bhave. Of the total area of 4.4 million acres donated as Bhoodan, about 9 lakh acres have been distributed so far.[2] About 10,000 families were settled in Bihar on Bhoodan lands under two schemes for which the Central Government provided assistance.

5. **Imposition of ceilings of land-holdings.** Instead of depending only upon voluntary gifts of land from landowners, a legal ceiling on individual holdings has either been prescribed or is proposed to be laid down almost in all States, so that no holder can own and cultivate a larger holding. In this way, land in excess of the prescribed maximum will become available for settling landless workers. However, only a limited measure of relief can be expected from such redistribution of land, because of the large number of landless workers.

6. **Extension of irrigation, intensive cultivation and improvement in agricultural practices** will increase rural employment and thus afford relief to agricultural workers. Moreover, these measures will add to productivity, increasing thereby the power of the employer to pay higher wages.

7. **Reorganisation of the land system on the basis of co-operative joint farming.** This will place the agricultural worker in a position of near equality in status and opportunity with other sections of the village community.

8. Organization of suitable **agro-industries** (rural industries). The establishment of **rural industrial estates** producing consumers goods, largely of rural consumption, will be an excellent idea and will provide means of employment during periods of unemployment and will also divert a part of agricultural labour permanently.

9. Still another step will consist of **well-planned works programmes** for the utilisation of manpower resources in rural areas.

1. Vide *Third Five-Year Plan—A Draft Outline*, 1960, p. 96.
2. *Third Five-Year Plan*, p. 376.

Roadbuilding, digging of wells and canals, afforestation, etc., can be so timed that they might absorb the agricultural labour power during the period of seasonal unemployment. The workers should be organised into **labour co-operatives.**

10. Measures to promote **inter-regional** mobility of agricultural labour should also be taken. These will include cheap transport facilities and the establishment of **rural labour exchanges.**

11. **Organisation of agricultural labour.** The principle of collective bargaining is a tried method of improving the condition of employment. Its adoption is, therefore, necessary in the case of agricultural labour also.

There is no denying the fact that the organization of such a mass of agricultural labourers who are very widely scattered is very difficult. Their ignorance and illiteracy and the casual and seasonal nature of their employment make the task still more formidable. But with honest and vigorous efforts, coupled with the measures suggested above for the improvement of their economic position, the work of organisation may succeed.

12. To ensure that the benefits of different development programmes reach the landless agricultural workers effectively, their problems should be dealt with in a co-ordinated manner at the district and block level as well as at higher levels. The Third Five-Year Plan, therefore, suggests **the formation of a Board in each State** for co-ordinating all measures proposed for the benefit of agricultural workers. The most significant development proposed in the Third Plan, whose benefits will go largely to agricultural labour, is the programme for undertaking works projects in rural areas. Under this programme, it is hoped to provide additional wage-employment in rural areas for about 100 days in the year, specially during the slack agricultural seasons, for about 2.5 million persons by the last year of the Plan.

Further, the Planning Commission has decided to set up a Central Advisory Committee to advise the Commission on the settlement of landless workers on land and on measures to solve their other problems.

Rehabilitation of Landless Agricultural Workers

The future pattern of village development on the co-operative basis indicates that the distinction between those who have land and those who are landless must go. Feudal rights, maldistribution of land, exploitation of wage earners and caste disabilities must not exist. To achieve this objective the following steps are essential:—

(a) Redistribution of land voluntarily or by law,

(b) increase in agricultural production,

(c) equal opportunities for all,

(d) educational facilities and concessions for the poor so as to give them confidence and initiative, and

(e) improvement in living conditions.

The problem of the amelioration of agricultural labourers is intimately related to the basic problem of poverty. The solution does not lie merely in the redistribution of land. Thus apart from the general measures of economic development, especially more intensive and diversified agricultural production and a more diversified occupational structure in the rural areas, specific measures, such as resettlement schemes, formation of labour co-operatives, allotment of house sites and enforcement of minimum wages, should be implemented as early as possible.

The Planning Commission has laid down the policy of providing land to the landless and to owners of uneconomic holdings. Blocks of newly-reclaimed land and culturable waste have to be set apart for them. Rs. 2 crores were allotted for the purpose under the First Five-Year Plan. During the Second Five-Year Plan, there was to be a large programme for giving land to agricultural labourers. Census of holdings was to be completed and landless agricultural labourers settled on all land that became available. The number of persons settled like this can, however, be only small in comparison with total landless labourers. In the Second Plan, apart from a provision at the Centre, 14 States had schemes, estimated to cost about Rs. 5 crores, for the settlement of 20,000 families of landless workers on 1,00,000 acres. The Third Plan provides Rs. 4 crores for settlement plans by the States and Rs. 8 crores by the Centre and 7,00,000 families of landless labourers will be settled on 5 million acres. In the structure of the rural economy, which the Five-Year Plans attempt to build up, agricultural labourers will participate fully and on equal terms with others and will achieve effective economic and social equality with the rest of the rural population.

Considering that ultimately it is by achieving rapid and intensive development in the rural areas that the landless sections of the population can be substantially benefited, the Third Plan provides for large investments in the rural economy, the total outlay in the public sector on agriculture, community development and irrigation will amount to Rs. 1,700 crores. There is a provision of Rs. 92 crores for khadi and village industries. Small-scale industries and industrial estates will be extended to rural areas.

Bhoodan

The object of the **Bhoodan** or gift-of-land movement is to provide land for the landless labourers by arousing the charitable instincts of the big landlords. It was started in 1951 by Acharya Vinoba Bhave, a colleague of Mahatma Gandhi, in the district of Telengana in Hyderabad, where there was agrarian disturbance due to land hunger of cultivators. The Gandhian principle of peaceful persuasion is used to make landlords make gifts of

land for the landless. Vinoba describes **Bhoodan** as a method to remove maladjustments in a peaceful way. Describing the aim of the movement, Vinoba Bhave says: "In a just and equitable order of society, land must belong to all. That is why we do not beg for gifts but demand a share to which the poor are rightly entitled". The emphasis is not on mere charity but on the responsibility of the society for righting a social wrong or redressing a social evil.

The movement has spread all over India. The target is to collect 500 lakh acres of land so that it may be possible to provide some land for cultivation to every rural family. Up to the end of September, 1963, over 40 lakh acres of land had been collected of which about 10 lakh acres had been distributed among the landless. They were given land on the condition that they would till it themselves, and would not sell or transfer it for 10 years. In the beginning, co-operative farming was a condition of land being given to a person. This condition has been removed now

The movement has now widened out into **Gramdan,** i.e., donations of entire villages. Since January 1957, the emphasis has shifted to **Gramdan.** So far (1962) 5,342 villages have been received in donations. In the non-agricultural sector, the movement assumes various forms such as **Sampattidan** (donation of money or other resources), **Buddhidan, Jivandan** (donation of one's mental abilities and life) to the achievement of the Bhoodan ideals.

Several States have rendered active assistance to the movement. In order to facilitate donation of land to Bhoodan and the redistribution of such lands, necessary legislation has been enacted in Bombay (Berar and Saurashtra areas), Bihar, Madhya Pradesh, Orissa, Punjab, Rajasthan, Uttar Pradesh, Delhi and Himachal Pradesh. For instance, in Madras, Bhoodan Yajna Act, 1958, facilitates the donation of lands for the Bhoodan Yajna and the transfer and settlement of such lands for the benefit of landless poor peasants or for community purposes. The legislation in all these States deals with the procedure for giving legal validity, after necessary inquiry, to the **Bhoodan** donations and for vesting the lands in the Bhoodan Committees.

Recognising the importance of the **Bhoodan** movement, the Second Plan recommends that schemes for re-settlement on land of agricultural labourers should bring in **Bhoodan** lands. The Plan recognises that the practical success which is achieved in the development of **Gramdan** villages will have great significance for co-operative village development. The **Gramdan** villages will get preference in the matter of opening community development blocks and starting other community development activities.

A number of shortcomings of the movement are commonly pointed out:

(1) It is alleged that much of the area donated consists of

submarginal lands of poor quality or those over which the donors have doubtful rights.

(2) Since the recipients lack implements, cattle, seeds, etc., they are unable to make any use of the lands they receive.

(3) The pace of the distribution of collected land is very slow. Up to October 1954, less than 3% of the land collected had been distributed.

(4) By creating illusions in the minds of the landless and land-poor agriculturists about the efficiency of an alternative method of re-distribution of land, it may impede the quicker method of re-distribution through legislation.

But the significance of the movement lies in its contribution to the solution of the problem of land re-distribution among landless peasantry. No doubt several measures of land reform such as abolition of intermediary rights in land, prescription of ceiling on land holdings, etc., have been taken, but these measures will benefit tenants rather than landless labourers. For making land available to the landless, **Bhoodan** movement deserves to be strengthened.

Its moral value is of special importance. It represents a voluntary, non-violent approach in matters which might have necessitated coercive and violent methods. It seeks to bring about a radical change in the psychology of the society by creating an atmosphere of equality, goodwill and co-operative effort.

Another great significance is that it is very helpful in creating the right climate for the introduction of far-reaching reforms in the country. The movement is making public opinion favourable for the implementation of the new land policy.

Without belittling its importance, it will have to be admitted that **Bhoodan** movement is no substitute for other ameliorative measures for the landless labour. Nor does it give an ideal system of land holdings; unless the peasants selected for land gifts are organized into co-operative farming societies, the newly created small holders may not thrive. Thus the movement cannot solve the problem of landless labour. Other ameliorative measures must be adopted simultaneously. The ultimate aim should be to place agricultural workers in a position of equality in status and opportunity with other sections of the village community. This movement can only create the right climate for introduction of that system.

CHAPTER XI

Irrigation

Soil, seed and manure may be good, implements and cattle efficient, but without an adequate and regular supply of water, agriculture must remain precarious. Where rainfall is not seasonal and adequate, artificial irrigation is indispensable for agricultural operations.

The average rainfall in India as a whole is 45 inches per annum, but local variations are considerable. For instance, in western Rajputana, it is only 10 inches in the year, while in the submontane tracts of U.P. it goes up to 100 inches. Besides, rainfall is unequally distributed through the seasons. Most of the rain (except in Madras) falls between June and October. The rest of the year is very dry. Thirdly, rainfall is sometimes deficient and is liable to failure. Thus, before the era of railways and canals, "ghastly famines ravaged the country periodically and scarcity was the common lot of the people over large areas".[1]

So far we have utilised only a fraction of our water resources. The resources have been estimated at 13,560 lakh acre-feet of which approximately 4,500 lakh acre-feet are utilisable for irrigation. But 880 lakh acre-feet representing only 6.5% of the total and about 19.5% of the utilisable water were actually utilised up to 1951.[2] By the end of the Second Plan, it was estimated that about 120 million acre-feet representing about 27% of the usable flow would be utilised. An additional 40 million acre-feet are likely to be used in the Third Plan, bringing the proportion to about 36% of the usable flow.

The irrigated area in undivided India was 72 million acres, i.e., about 24% of the total. After partition the proportion in India fell to 19%—48 million acres out of 251 million acres. In 1950-51, 51.5 million acres were irrigated and in 1960-61, 60 mil-

1. Sir Bernard Barley in *Economic Problems of Modern India*, p. 148; *Indian Year Book 1944-45*, p. 288.

2. *India 1952*, p. 228.

lion acres nearly. The percentage of irrigated area to net sown area is nearly 16%.

Kinds of Irrigation Works

There are three main types of irrigation works in India: (a) wells, (b) tanks, (c) canals.

Out of a total area of 318 million acres of net sown area in 1958-59, nearly 60 million acres were irrigated. The area was distributed under different types of irrigation as follows:—

Irrigated Area (in millions of acres)[1]

		1950-51	*1960-61*	*Increase or decrease*
Canals	...	20.5	25.4	+49
Tanks	...	8.9	11.5	+26
Wells	...	14.8	17.4	+26
Other sources		7.3	5.9	—14
Total	...	51.5	60.2	+87

At the end of 1962-63, the total irrigated area in the country was 70.0 million acres. It is interesting to note that in spite of the progress of canal irrigation, tanks and wells still irrigate a larger area comparatively.

(a) **Well Irrigation.—Surface wells.** This is a very ancient and important method of irrigation accounting for 16.7 million acres or more than one-fourth of the total irrigated area of the country. There are about 2½ million wells in India, of which about half the number are in U.P. alone. The chief well-irrigated States in India are Punjab, U.P., Madras and Bombay. Wells are mostly private works but the Government also helps in their construction by advancing taccavi loans. On an average a well can irrigate 5 acres of land and gives an extra yield of a ton of food per well. The surface well has the great advantage that it can be constructed with resources available within the country. Subsidies and loans are, therefore, granted by the Government for construction of wells. This is a very satisfactory and dependable means of irrigation.

(b) **Tube-wells.** There are excellent prospects for tube-well irrigation in Punjab, U.P. and Bihar. A tube-well goes to a depth of from 60 ft. to 500 ft. and can be sunk only with the help of mechanized drilling equipment. It draws up about 33,000 gallons per hour and can irrigate about 500 acres of land. There were 2,500 tube-wells in India before 1951. The First Plan provided for the construction of 5,830 tube-wells. On completion

1. *India 1954*, p. 202.

they were expected to irrigate 2 million acres. But only 4,422 tube-wells were actually completed in the First Plan. The Second Plan had a programme for the construction of 3,581 additional tube-wells. The outlay on these was estimated to be Rs. 20 crores and the area expected to be irrigated 9 lakh acres. U.P. has the largest number of tube-wells—4,650 in number. Another 1,500 were to be dug in U.P. in the Second Plan. Punjab, Bombay, Bihar and Madras come next in the picture. As compared with the surface wells, they are not only cheaper to work, but they also relieve our weak and overworked cattle of the great strain of working at the well. Where canal irrigation is likely to give rise to the evil of water-logging as in Eastern U.P., this is the best method.

(c) Tanks. While wells can be privately owned, tanks are almost always owned by the State. Outside Punjab they are found in almost all States, but Madras has the largest number. They are of all sizes ranging from big lakes—formed by the erection of high dams across the beds of rivers—to village ponds. Most tanks are old and are silted up. They are of great use in places where it is not possible to construct canals. They are thus generally found in the South where the soil is rocky. Rain water is stored in them in the rainy season and utilized in the dry part of the year. In all, nearly 11 million acres are being irrigated by tanks. Of these 3 million acres are in Andhra and Madras States.

Minor irrigation projects are not so expensive and produce quick results. Hence they are being paid special attention by the Government.

(d) Canals are the most important single form of irrigation in present times. They irrigate nearly 24 million acres out of the total irrigated area of 56 million acres, i.e., over 40%. With very few exceptions, they have all been constructed and are being maintained by the State. They are usually of two types: perennial and inundation. Perennial canals have an assured supply of water all the year round. Inundation canals get water only in flood time. A third type, storage works canals, are constructed by building a dam across a valley to store rain water. This water is then used for irrigating lands in the dry part of the year. Such works exist mostly in Deccan and Madhya Pradesh.

Multi-purpose River Projects

India's water resources have been provisionally estimated at 13,560 lakh acre-feet of which about 760 lakh acre-feet (i.e., about 17% of the usable flow or 5.6 of the total annual flow) had been utilised up to 1951. By the end of the Second Plan, 1,200 lakh acres (i.e., 27% of the usable flow or 8.9% of the total annual flow) had been utilised. An additional 400 lakh acre-feet are likely to be utilised in the Third Plan bringing the proportion to 36% of the usable flow. The possibility of having irrigation canals by diverting the normal flow of rivers has been almost

exhausted. The future development therefore can be only in the direction of storing river water by building dams or construction of minor irrigation works such as tanks or wells or installation of water-lifting devices. It is the responsibility of the Central Water and Power Commission to initiate, co-ordinate and further the schemes for the control, conservation and utilisation of water resources throughout the country for the purpose of flood control, irrigation navigation and hydro-electric development.

A word about major irrigation projects.

Bhakra and Nangal Projects

The whole economy of Punjab was unhinged by the partition. The Government thought of the Bhakra Project to place the economy of this infant State on a sound footing.

The Bhakra Nangal Project consists of a 740-ft. high dam (the highest in the world) across a gorge at Bhakra 90-ft. high Nangal Dam; 40-mile long Nangal Hydel Channel and the power-houses at Bhakra, Ganguwal and Kotla and a reservoir about 50 miles long. The Nangal Dam is located 8 miles downstream. All works, except the Bhakra Dam and its power houses, have almost been completed. The dam was completed in 1962. The power house on the left bank has been completed and the work is being done on the right bank power house. The entire cost is estimated to be Rs. 175.6 crores nearly.

The Bhakra irrigation system consists of nearly 650 miles of lined canals and more than 2,200 miles of distributaries commanding a total area of about 67.6 lakh acres. Of this the cultivable commanded area will be 58.6 lakh acres and 36 lakh acres will be annually irrigated on full development. In addition an area of 37 lakh acres will get increased water supply. In 1961-62 an area of about 20.89 lakh acres was irrigated by the Bhakra Canal System in the Punjab and Rajasthan. It is anticipated that on full development there will be an additional outturn of 8.5 lakh tons of wheat and other foodgrains, 5.9 lakh bales of cotton, 1.5 lakh tons of sugarcane and 0.3 lakh tons of pulses and oilseeds.

There are two power houses at Ganguwal and Kotla with a capacity of 96,000 kw. each. These power houses are in operation. It is proposed to instal one additional unit of 29,000 kw. each in Ganguwal and Kotla power houses. The left bank power house at Bhakra will have 5 generating sets of 90,000 kw. each. With the addition of all these units, there will be an installed capacity of 6,04,000 kw. and firm capacity of 3,32,000 kw.

The project will largely solve the economic problems of Punjab. It is already dispensing benefits to the people. By the end of the Second Plan it was expected to supply power to 5,000 villages and 130 big towns. Delhi is also benefiting from the project.

Beas Project

With the completion of the Bhakra Project being in sight, preliminaries have been undertaken in regard to another gigantic venture—the Rs. 200-crore Beas Project. Soon a new township—Talwara—will appear on Punjab's map to serve as the base of operations.

The Beas project fits impressively into what may eventually form a master plan for the development of the three eastern rivers—the Sutlej, the Beas and the Ravi—allotted to India under the Indo-Pakistan canal water treaty.

The scheme is truly Indian in conception and execution. The Beas waters will be diverted through the formidable mountainous reaches to fall into the mammoth Bhakra lake from a height of 1,000 ft. Beas Control Board has been formed—following an agreement between the Governments of Punjab, Rajasthan and Himachal Pradesh—to take charge of all technical and financial aspects.

The Beas project consists of two units—the Beas-Sutlej link (unit one) and the Beas dam at Pong (unit two). These together will not only harness the Beas power potential but will also create an irrigation 'grid' enabling great flexibility in the operation of water releases for canal systems from the Sutlej and the Beas.

The Beas-Sutlej link will comprise: (1) Pandoh dam: this will be a diversion dam located near Pandoh village, 13 miles upstream of Mandi town. It will be a straight gravity dam, 150 ft. above the river bed with an over-flow spillway and desilting outlets. It is estimated to cost Rs. 12 crores; (2) Pandoh-Suketi tunnel: the primary function of the tunnel will be to transfer Beas waters at Pandoh into the hydel channel located along Suketi valley. It will cost Rs. 16 crores; (3) Suketi hydel channel, estimated to cost Rs. 6 crores, will be seven miles in length and will link the Pandoh-Suketi and Suketi-Sutlej tunnels; (4) Suketi embankment: a small forebay reservoir will be provided at the tail-end of the hydel channel to balance the weekly load fluctuations at the Sutlej power plant. The storage capacity will be 10,000 acre-feet. Cost Rs. 6 crores; (5) Suketi-Sutlej tunnel: a Rs. 20-crore dual function tunnel, eight miles long, it will not only generate power at the Dehar power station, but will also help fill the Bhakra lake; (6) Dehar power plant: it will be situated on the right bank on the Sutlej, 40 miles upstream of the Bhakra dam and 1,000 feet downstream of the confluence of Bharai khad with the Sutlej. The power units will be fed through the Suketi-Sutlej power tunnel and surface penstocks. Six units of 100,000 kw. each will be installed at a cost of Rs. 20 crores.

The Dehar and Pong power plants, working in grid with Bhakra, will generate 483 mw. power at 100 per cent load factor over and above the present generating capacity (267 mw.) of the Bhakra power plant alone. Besides averting power famines,

the scheme will help stabilize the economy of the region. The Beas Project, as a whole, is expected to irrigate 19 lakh acres in Rajasthan and 6 lakh acres in Punjab. This is expected to yield 25 lakh tons valued at Rs. 66 crores worth of crops annually 20 years hence.

The Beas dam site is situated near Pong village, 24 miles from Mukerian. It will store Beas waters for utilization in the Punjab and Rajasthan areas and is mainly an irrigation scheme, although provision has been made for exploiting the available power potential. The reservoir will have a gross storage capacity of 6.55 million acre-feet, with a dead storage capacity of 105 million acre-feet. The U.S. has offered $33 million and the World Bank $23 million for the execution of the plan.

Special significance attaches to this project on account of the Rajasthan canal. Development of irrigation in the Rajasthan canal will be extremely handicapped if winter supplies are not made available. The project, which is estimated to cost Rs. 208 crores, will have a total installed capacity of 9.96 lakh kw. of power and irrigate a total of 6.8 million acres of land in Punjab and Rajasthan.

A project proposed for the second unit will ensure extension of perennial irrigation to about 50 lakh acres in Punjab and Rajasthan. Besides, a power plant with an installed capacity of 240 mw. will be constructed.

Damodar Valley Project

The Damodar flows through Bihar and Bengal. The river and its tributaries are very turbulent. They overflow their banks and do havoc to a large area. The project consists of 4 storage dams at Tilaiya, Konar, Maithon and Panchet Hill, with hydroelectric installations of a total capacity of 1.04,000 kw. attached to all the dams except Konar. Then there are three thermal power stations at Bokaro, Durgapur and Chandrapura with a total capacity of 6,25,000 kw. There is an extensive power transmission grid and an irrigation barrage at Durgapur with canals and distributaries. During the Third Plan, two units of 1.25 lakh kw. each are to be added to the DVC system, raising the total power generating capacity to 9.79 lakh kw. It is one of the most important projects in India. The total cost of the first phase was expected to be over Rs. 96 crores. The Government has created a semi-autonomous body to manage it, called the Damodar Valley Corporation on the model of T.V.C. in U.S.A.

It has been designed primarily for flood control. But it will also provide irrigation and navigation facilities. Increased production is valued at Rs. 5 crores a year. In the near future this area may come to be styled as the Ruhr of India. The valley with 80% of all India's coal, 90% of all her iron, all her copper, 70% of her chromite and mica, half her fire clay and nearly half her china-clay and asbestos, is literally the mineral store-house of the country. With the provision of cheap electric power, it

will be possible to start heavy industries and electro-chemical industries. The 'Valley of Sorrow' will thus be turned into a valley of plenty.

The Tilaiya dam, 99 ft. high and 1,200 ft. long, was completed in 1952, the Bokaro Thermal Station with an installed capacity of 1,50,000 kw. (to be eventually raised to 2,25,000 kw.) was commissioned in 1953 and so was the Tilaiya Hydro-electric Station; the Durgapur Thermal Station with an installed capacity of 1,50,000 kw. was commissioned in 1960. The work on the third thermal station at Chandrapur with an installed capacity of 1,25,000 kw. is in progress; the Konar Dam was completed in 1955; the Maithon Dam was completed in September 1957, and the work on the biggest of the four Panchet Hill dam was completed in 1959. The barrage at Durgapur was opened in 1955. It is expected to irrigate 9.73 lakh acres of land through a network of canals and distributaries. Nearly 85 miles of the main left bank canal will be navigable.

Mahanadi Valley Project

This project will harness the river Mahanadi. It will comprise three dams—at Hirakud near Sambalpur, at Tikarpara, 130 miles down, and at Naraj near Cuttack. It will help to set up factories to manufacture cement, steel, sugar and chemicals and thus convert this area into one of the richest. The Hirakud Dam is big and marks the coming of a 'new age' and ushers in a new era of agricultural and industrial progress.

The Hirakud Dam, 15,748 feet long, is the longest in the world. It will impound 67.5 lakh acre-feet of water and form a 280-sq. mile lake. The Bargarh canal got its flow of water in 1956. This project is expected to irrigate 5.7 lakh acres in Sambalpur and Bolangir districts. The main dam and dykes have been completed in all reaches. The entire net-work of canal distribution system was completed in March 1960. The power house at the base of the dam with a capacity of 1,23,000 kw. has been commissioned. According to a revised estimate its cost will be Rs. 70.78 crores. With the inauguration of the Chiplima power house in September 1963, the total installed capacity of the Hirakud System is now 270 mw. The Hirkud project will irrigate 5,70,000 acres in Sambalpur and Bolangir districts. It also envisages to supply perennial water to the delta irrigation scheme which will irrigate 15,95,356 acres in Cuttack and Puri districts. A scheme costing Rs. 14.92 crores has been sanctioned for delta irrigation and when completed it will supply perennial irrigation to 15.95 lakh acres annually in the Cuttack and Puri districts.

Tungabhadra Project

It is a joint undertaking of Hyderabad, Andhra and Mysore. It comprises a dam 7,942 feet long and 162 feet high; a 127-mile long canal (called the Left Bank Canal) and 217-mile long canal

(called the Low Level Canal) and 122-mile long canal (called the High Level Canal) and power houses on both sides.

The reservoir, which has a waterspread of 146 square miles will store 30 lakh acre-feet of water ultimately. The two canals will irrigate nearly a total of 8.3 lakh acres in Andhra Pradesh and Mysore States. The two power stations of the project of 9,000 kw. each have been set up. The two generating units of 9,000 kw. each have been commissioned. Below the dam on the left side, a power house is going to be constructed where three generators of 9,000 kw. each will be installed and another unit of 9,000 kw. each is expected to be added in 1964. The main dam has been completed except some minor works which are in progress. The project is estimated to cost Rs. 60 crores. An area of 1.23 lakh acres in Andhra Pradesh and 2.60 lakh acres in Mysore has been brought under irrigation.

Kosi Project

It is primarily a flood control project. Kosi has been, called a **River of Sorrow** for North Bihar and the average annual loss from floods has been estimated at Rs. 10 crores. The scheme consists of (a) a 3-mile long barrage on the river Kosi along Indo-Nepal border near Hanumannagar, (b) 70-mile long embankments on both sides, (c) 4 division channels, and (d) a canal system. It is estimated to irrigate nearly 22.85 lakh acres on the left bank of the river and 8.34 lakh acres on the right bank in Bihar and Nepal, and generate 20,000 kw. Nearly 6 lakh acres had become flood-free due to construction of embankments. Till January 1964, Rs. 50.09 crores had been spent on different schemes of the Kosi Project and it is estimated that Rs. 27.77 crores more would be spent to complete the project

Chambal Project

It is meant for Madhya Pradesh and Rajasthan. It envisages 3 dams across river Chambal. The first stage called the Gandhi Sagar Dam will irrigate 11 lakh acres and produce 80,000 kw. of power. The second stage called Rana Partap Sagar Dam has been started. When completed, it will provide irrigation facilities to 3 lakh acres and generate 90,000 kw. The third stage has also been undertaken which comprises the construction of Kotah Dam and a power station which will have three units of 33,000 kw. each with provision for the installation of fourth one. The first stage is estimated to cost Rs. 63.59 crores and the second stage Rs. 17.21 crores.

Mayurakshi Project

It is in West Bengal, on the river Mayurakshi. The canals on either side will irrigate 7.2 lakh acres annually and generate 4,000 kw. Canada has provided financial aid equal to two-thirds of the total cost of Rs. 16 crores. The dam, called Canada Dam, was completed in 1955 and the two generating sets were commissioned respectively in 1956-57.

Rihand Project

It consists of a dam across the river Rihand near village Pipri in District Mirzapur (U.P.) and a power station with an initial capacity of 2.5 lakh kw. and ultimate installed capacity of 3 lakh kw. The project has been completed at an approximate cost of Rs. 50 crores. Power from the project is used for large-scale industrial and agricultural development of an economically backward region of Uttar Pradesh by providing cheap power for cottage industries as well as for medium and major industries. Power is also supplied to operate tube-wells capable of irrigating about 14 lakh acres in U.P. and about 5 lakh acres in Bihar. Not only will the Rihand Project bring prosperity to the poverty-stricken eastern districts of Uttar Pradesh, but it also holds promise of becoming the centre of a vast new industrial complex.

Rajasthan Canal Project

This project was sanctioned in July 1957 and it is estimated to cost Rs. 66.47 crores. The canal will take off from the Harike barrage across the river Sutlej. The Rajasthan feeder will be 134 miles long of which first 110 miles lie in the Punjab territory. The Rajasthan Canal proper will be 291 miles long and will lie entirely in Rajasthan territory. The length of brances and distributaries will exceed 5,000 miles. To begin with, the Rajasthan canal will be fed by flow supplies from the Ravi and Beas rivers. Later, the flow supplies will be supplemented by stored waters from dams proposed to be constructed on these two rivers. It is going to be the biggest and the longest irrigation system in the world and would take 8—10 years to complete. It is proposed to complete the project in two stages. The first stage comprising the Rajasthan Feeder and the first 122 miles of Rajasthan canal is expected to be completed in 1968-69. The second stage will be completed in 1975-76.

The Rajasthan canal will irrigate nearly 36 lakh acres of the virgin desert which today is parched and waterless and dotted with shifting sand dunes. The project is estimated to cost Rs. 184 crores. Foodgrains valued at Rs. 64 crores nearly on the irrigated land will be produced every year. With the completion of the Punjab portion of the feeder in July 1964, water was let into the canal at its origin at Harike-point on the Sutlej.

Benefits from River Projects

It is a settled fact that "the possibilities of diverting the normal flow of rivers into irrigation canals have almost been exhausted". Future development of irrigation, therefore, lies only in damming rivers and impounding surplus waters in the monsoon season and using it in the dry parts of the year.

The supply of water perennially to thirsty lands will provide a long range solution to the food problem in India. By 1961, the irrigated area in India had risen to about 88 million acres from 51 million acres in 1951 and 56.2 million acres in 1955-56.

In addition to bridging the food deficit gap, the projects will make good the deficiency in commercial crops like cotton and jute and pave the road to industrial prosperity. The projects will also provide large amounts of electric energy for our large-scale factories.

There is no other way to control floods in India which spread havoc during the rainy season except by creating lakes in the rainy season.

The projects have been very useful in village and town electrification. The supply of energy to towns and villages makes possible the establishment of small-scale industries (besides big industries) in the rural areas, runs tube-wells, subsidises agriculture, and provides work for the thousands in their homes.

One of the main objectives of the Second Plan is to provide employment opportunities in the country. The role of river valley projects in this direction is obvious. The projects create 3 different kinds of employment: (a) **revolving employment**—immediate work which lasts only as long as the project is under construction. Labourers, skilled and unskilled, will have to 're-volve' to other work of a similar type after the project is complete, (b) **indirect employment** created by persons earning fresh incomes and (c) **sustaining employment** arising from a completed project.

Among the other benefits which result from the projects may be mentioned internal navigation, development of fisheries, provision of clean drinking water and recreation for the sick and tired.

Development Programme

India is fortunate in her water resources, but they remain largely unutilized. The rest run to waste. The possibility of using the normal water supply of rivers for irrigation has been exhausted. Hence the surplus river flow in the rainy season is to be dammed and used in the dry part of the year. Large areas are lying waste while others produce poor crops for want of water. Besides, the total installed capacity of hydro-electric power is not more than half million kw. against a potential of about 40 million kw. Consequently the highest priority was being given to irrigation and power schemes under the First Five-Year Plan. It is intended to double the irrigated area in India within 15 to 20 years.

The aggregate estimated cost of the major and minor irrigation schemes included in the First and Second Plans is of the order of Rs. 1,400 crores and on full development they are expected to irrigate about 38 million acres. By the end of the First Plan, an outlay of Rs. 380 crores had been incurred on these schemes and the outlay of them in the Second Plan was estimated at Rs. 370 crores. In the Third Plan, they will require a total outlay of Rs. 486 crores. Some of these projects will continue

beyond the Third Plan. The progress of irrigation up to the end of the First and Second Plans and the targets for the Third Plan are shown below:—

Area Irrigated (million acres)

	1950-51	1955-56	1960-61	1965-66
Major and medium irrigation ...	29.0	24.9	31.0	42.5
Minor irrigation ...	29.5	31.3	39.0	47.5
Total ...	51.5	56.2	70.0	90.0

In order to secure maximum benefits within the shortest time from the large investment that is being made in irrigation work and to avoid injury from waterlogging, etc., the Third Plan lays emphasis on the following category of schemes: (a) completing continuing schemes right up to the cultivators' fields, (b) drainage and anti-waterlogging schemes and (c) medium irrigation projects. The total irrigation potential remaining unused at the end of the Second Plan was 3.2 million acres. During the Third Plan, additional irrigation potential of about 13.8 million acres is expected to be created from continuing schemes and 2.4 million acres from the new schemes in the Third Plan. The total cost of irrigation and flood control programme in the Third Plan is Rs. 661 crores. This includes Rs. 436 crores for irrigation projects carried over from the Second Plan and Rs. 164 crores for new projects and Rs. 61 crores for flood control, drainage, waterlogging and anti-sea-erosion schemes.

By the end of 1963-64, about Rs. 291 crores will have been spent on irrigation projects against the Plan provision of Rs. 600 crores.

But it is also very necessary that the irrigation facilities created by the irrigation works are actually used. Utilisation is as important as creating irrigation potential. The irrigation potential of major and medium projects increased from 12.09 million acres in 1960-61 to 14.27 million acres in 1962-63, whereas the utilisation increased from 71% to 74.2% (10.6 million acres). The irrigation potential created in 1963-64 was of the order of 16.34 million acres and utilisation 13.80 million acres, i.e., 80%. Against the estimated Third Plan potential of 29.47 million acres the irrigation potential likely to be achieved as estimated by the mid-term Plan appraisal is 23.16 acres and utilisation 18.60 million acres as against a target of 22.47 million acres.

The position is that there is not only vast area of land thirsting for irrigation but there is also plenty of water available for irrigation. There is also a curious fact that the irrigation potential created by the new irrigation projects is not being fully utilised immediately. Obviously it is a great national waste. It

has been estimated that only 80% of the irrigation potential has been utilised. The following steps are essential for accelerating this utilisation: (a) Adequate financial aid to the farmers to enable them to prepare their lands for receiving water, (b) construction of field channels, (c) colonization where population is thin; and supply of fertilizers where the soil is poor.

The Government of India has asked the State Governments to establish river boards for Mahanadi, Narmada, Mahi, Tapti, Beas, Ravi, Jumna, Cauvery and Ajoy basins. These boards are meant for controlling and regulating the supplies of the inter-state rivers for optimum utilisation and dealing effectively with problems in respect of irrigation, hydel power generation, flood control, soil conservation, drainage and navigation.

Danger of Irrigation—Waterlogging

Large irrigation projects have not proved an unmixed blessing. Waterlogging and salt effervescence in certain areas have led to deterioration of the soil and unhealthy surroundings. Much land has thus become unfit for cultivation due to the rise in the ground water level, the effects of which appear as (i) saturation of the soil, locally known as 'sem', (ii) concentration of salts in the upper soil, known as 'thur' or 'khar'.

The approach of the danger is marked by the following stages:—

(i) For one or two years 'barani' crops are unusually successful. (ii) In the third year patches of 'kallar' begin to appear on the affected fields and seed does not germinate. (iii) Yield begins to diminish and patches extend. (iv) Depression in close proximity to the canal remain full of water of a rusty colour. (v) The spring level rises closer to the surface. (vi) Houses in the 'abadi' begin to crumble. (vii) An obnoxious odour is emitted by abadis and the drinking water tastes raw.[1]

What happens is that the salts of the soil come up to the surface with the rise of sub-soil level. The canals bring this about in two ways. They intersect drainage lines and cause rain or flood water to be held up. Secondly, they cause their own water to seep until it reaches the spring level. "If the sub-soil outflow is not enough to balance the inflow, the spring level rises, being drawn up by capillary attraction and all the salts of the earth come to surface and make the land unfit for crops".

The main causes of waterlogging are: (i) not lining the canals, (ii) ignoring of natural drains existing in the area by the engineers when constructing roads or making canals, (iii) serious floods and unusually heavy rains, (iv) grabbing by the peasants of lands under the 'nulla', and (v) engineers not taking account of the unusual floods and modes of their discharge.

The remedies usually suggested for this phenomenon are.

1. Brij Narain—*Indian Economic Life*, p. 383.

(a) Pumping out of water by tube-wells and other methods of drainage. (b) Proofing of canal beds by concrete. (c) Opening out of obstructed drainage by remaking the whole canal. (d) Replacing canal irrigation by well irrigation. (e) Prevention of over-irrigation. The present system of supply leads to over-irrigation. Charge for water is made not according to the quantity of water used but according to crops matured. The sale of water by volume would make the cultivator economise water.

In Maharashtra and Gujarat 10,800 acres are waterlogged, in Jammu and Kashmir 4,500 acres and in New Delhi 3,200 acres. Waterlogging has assumed serious proportions in the Punjab affecting 19.7 lakh acres. About 21,000 acres of land in 35 villages in Rohtak district have been rendered unfit for cultivation and about 10 lakh acres of fertile Doaba (Jullundur area) land are waterlogged. There is a serious danger of entire Gurdaspur District becoming swampy stretch of land in five years' time. In Sarawan village barely 10 acres out of a total of 400 acres were brought under wheat in 1958. Vast areas varying from 25 to 40% in many districts of the State are waterlogged. In 1957 the Punjab Government set up an action committee consisting of heads of several departments to tackle the problem.

The problem was discussed by representatives of the Central Water and Power Commission and the Planning Commission with the Chief Engineers of the Punjab. At this meeting, the recommendations of the action committee formed the basis of discussion.

The representative of the Centre made the following suggestions which are at present under consideration of the State Government.

(i) Work should be concentrated on improving surface drainage in the State;

(ii) A correct appraisal should be made of the extent of waterlogged areas by careful observation of water table, both in the pre- and post-monsoon periods. A map should be prepared to depict the depth of the water table in the various regions;

(iii) "Thur" affected areas should be carefully assessed and shown on maps before any large-scale remedial measures are considered;

(iv) Treatment of "thur" land should be taken up in stages, beginning with a pilot scheme;

(v) Anti-waterlogging measures should be concentrated in selected areas to produce significant results instead of spreading work over large areas;

(vi) Lining of distributaries and minors, as of the main streams of water sources, should be taken up in selected regions where the problem is most acute:

(vii) The use of percolation wells should be encouraged where the ground water level is high. Electricity at concessional rates might be made available for pumping from such wells;

(viii) A pilot scheme for making underground line drains in a selected area should be prepared to demonstrate its effectiveness before a large-scale programme is launched.

It will be seen that there is no set solution for reclaiming waterlogged areas. Solution for each area has to be found after a thorough investigation of the specific causes of waterlogging in that area.

For checking further waterlogging, the Punjab Government have laid stress on the construction of flood protection works along rivers, and on the improvement of land surface drainage. These measures are being taken by the State Government under the flood control programme under which the State Government asked for a provision of Rs. 8 crores in the Second Plan period. The Plan provision for flood control measures all over the country was originally fixed at Rs. 60 crores only, out of which Punjab's allocation was Rs. 4 crores. Other states are also alive to the problem and are taking appropriate measures. But it will take some years to fight this serious menace. In the Third Plan a provision of Rs. 61 crores has been made for schemes relating to flood control, drainage, waterlogging, etc.

CHAPTER XII

Marketing of Agricultural Produce

In the past, India had a self-sufficient village economy. All that was produced was consumed in the village or its neighbourhood. The problem of marketing did not exist. Things have now changed. The surplus produce of the village is sold in distant markets. The economic position of the peasant depends on the money he can secure from the surplus he has to sell. He has little control over prices which are determined by the broad factors of supply and demand in the world at large. His sale proceeds can be increased by handling the produce better and reducing the charges of intermediaries between him and the consumer. This means an improvement in agricultural marketing. The Agricultural Commission said: "Until he (the peasant) studies the art of sale, either as individual or through combination with other producers, he will always come off second best in his contest with the high specialised knowledge and the vastly superior resources of those who purchase his produce."[1] **His main handicaps are that he has to sell his produce at an unfavourable place, at an unfavourable time, and on unfavourable terms.**

Essentials of Good Marketing

In order to sell the produce to the best advantage of the producer several conditions must be present. In the first place, the quality of the product should be good. Good quality can be assured by using standard seed, by adopting correct methods of harvesting, by grading the product, by storing it well and by avoiding malpractices like adulteration. The second essential of good marketing is the **staying power of the seller.** If he is compelled to sell just after the harvest, the selling pressure will depress prices. The peasant should, therefore, have enough reserves to pay land revenue and meet other needs. The third essential of good marketing is the **good means of communication**

1. Report, Agricultural Commission, p. 382.

and transport. If these are absent, the peasant will be forced to sell to itinerant purchasers or the local dealer at low prices. The peasant should also be aware of the changes in the market prices. Fourthly, there should be **well conducted markets at convenient distances.** Lastly, good marketing eliminates exploitation of the seller and reduces the number of intermediaries.

Present System of Marketing

There are three types of markets in India, namely: (1) **Hats and shandies,** (2) **mandis,** and (3) retail markets. The primary producer generally comes into contact with the first type only. **Hats** are markets periodically held, usually once or twice a week. **Shandies** are held at longer intervals or on special occasions. Both agricultural produce and livestock are sold in these markets. A **Hat** is generally meant for one village; sometimes it commands an area with a radius of 60 to 70 miles.

The Rural Credit Survey Report puts the quantity of produce sold at 4 lakh maunds. In addition to foodgrains, oilseeds and pulses, gur, tobacco and vegetables are also sold. Let us now study these systems.

(i) **Sales in Village 'Hats'.** The proportion of produce sold in a year differs with the individual. The "surplus" sold is greater for commercial crops than food crops. The prosperous cultivators may sell a large proportion later in the year but will not sell much at harvest time. The poorer peasant sells much more at harvest time to meet his obligations to Government and the money-lender and sometimes even at the cost of his personal consumption.

As for the proportion of produce sold in the village and that taken to the market, it has been estimated that 60 per cent of wheat, 35 per cent of cotton and 70 per cent of oilseeds are sold in villages in the Punjab.[1] For U.P. the figures are higher, and for Bihar, Bengal and Orissa are still higher. "The proportion of produce sold in the village is greater when cultivators are debt-ridden or carry on subsistence farming". The proportion is also greater when means of communication are not adequate.

The produce sold in the village is sold to middlemen. These middlemen may be village banias or itinerant[2] beoparis, either purchasing on their own account or as agents of some 'arhtiya' in a secondary town market. But where the money-lender has his grip over the peasant, the latter is not a free agent. The debtor has then to sell to his creditor more or less on the latter's terms. In any case when the produce is sold in the village, the cultivator obtains much less than he would if he carted it to the market. But to take it to the market he requires satisfactory means of carting and good roads.

1. Hussain—*Marketing of Agricultural Produce in Northern India*, p. 96.

2. Itinerant middlemen go under different names in the various States, *Beoparis* in the Punjab, *Banjaras* in the M.P., etc.

The reasons why the cultivators sell their produce in village generally are: (a) Urgent need for money; (b) bad roads; (c) uneconomical carting of the produce to the market as the surplus with the cultivator is small; (d) ignorance of market prices; (e) lack of time to go to the 'mandi'; (f) the pledging of the produce to the local money-lender; and (g) the complex practices in the 'mandi' and physical discomforts in the town.

(ii) **Sales in the 'Mandi'.** Few markets in the countryside are organised. The unorganised ones are more or less of a primitive character. They have no set customs or rules for sales and settlements of accounts. There are no permanent functionaries. They are either owned privately or by local bodies. In Madras they are mostly owned by District Boards, in Assam, W. Bengal and Bihar they are mostly private. Uttar Pradesh has the largest number of such 'mandis'. There are small 'mandis' from which 'arhtiya', a mere agent, passes on the produce to his master in the large 'mandi'. This part of the process of marketing aims at the collection and concentration of small surplus of the commodity from small farmers. Ultimately it goes to the wholesale markets.

Organized markets have developed in localities where staple products like wheat and cotton are grown. In such places, specialization in crops has taken place and cultivation is governed by the prices prevailing in distant markets. This is especially the case in areas where transport facilities are present. In these bigger 'mandis' the wholesale 'arhtiya' facilitates grain transactions. He often supplies capital to the village 'bania' or 'beopari' on the stipulation that the produce would reach him regularly at harvest time. He also acts as a commission agent of shroff and big exporting firms in the cities, thus forming an indispensable link in the chain of middlemen between the cultivator and the shipper-buyer.[1]

The wholesale 'arhtiya' is also known as 'pacca arhtiya'. He should be distinguished from the 'kacha arhtiya', who acts as an agent for 'beoparis' in the villages. The 'pacca arhtiya' never deals directly with the cultivator-seller. In addition to the 'arhtiya', there are intermediaries called 'dalals'. The 'pacca arhtiyas' hold stocks and sell to shippers, wholesale merchants as well as to retailers.

Transactions in markets usually take place thus: The seller entrusts his goods to an 'arhtiya'. There is also a 'dalal' dealing on behalf of the purchaser. Both the 'arhtiya' and the 'dalal' put their hands under a piece of cloth, and start catching each other's fingers. The bargaining is usually in terms of annas, as there is generally no dispute about the rupee part of the price. The negotiations go on in this secret manner till they are either called off owing to failure of an agreement or a price is settled, and the seller is informed of it. In some cases produce is sold by open auction. Sales by auction are gradually replacing the secret

1. *Ibid.*

sales in bigger markets. In a few 'mandis', there are co-operative shops which take the place of the 'kacha arhtiya'. As soon as the deal is effected, the 'kacha arhtiya' pays to the seller. Through the 'arhtiyas' the produce is passed on to retailers, to mills and to exporters.

(iii) **Regulated Markets.** Most of the States in India have legislated to regulate markets. So far (1960-61), 725 regulated markets have been set up in seven States. The object is to eliminate existing evils in unauthorized markets. Fictitious sales and mock auctions should disappear. All the various existing evils are given in detail below.

Defects

The main defects of the present system of marketing in India are: (a) Indifferent quality of produce; (b) inadequate facilities of transport; (c) multiplicity of intermediaries; (d) lack of storage and warehousing facilities; (e) fraudulent practices in the markets. We shall now discuss these defects and the steps taken to remedy them.

(a) **Indifferent Quality of Produce.** The Indian produce does not enjoy a good reputation in foreign markets, though things have improved through organised Government effort. The low quality of produce is due to (i) indifferent seed, (ii) pests and disease, drought or too much rain, (iii) primitive methods of harvesting, (iv) lack of proper storage facilities which exposes grain to rain and rats, (v) deliberate adulteration and damping, (vi) absence of grading, etc.

(b) **Absence of Grading and Marking.** Generally speaking, there is no grading of the commodities to be sold. The purchaser has, therefore, little confidence in the quality of the commodity. This proves a serious handicap in the marketing of such commodities. Some work in this direction has been done since the passing of the Agricultural Produce (Grading and Marking) Act of 1937, but the progress has not been satisfactory. Under this Act, licences are issued to reliable merchants authorizing them to grade agricultural produce under the close supervision of the Government marketing staff. Such produce is then placed in the market under the label of "AGMARK". Among the commodities graded so far include fruits, eggs, 'ghee', 'atta', oilseeds, vegetable oils, cotton, rice, lac, etc. Demand for such graded commodities from foreign countries has been on the increase.

The First Five-Year Plan recommended compulsory grading for many articles but progress was not possible except in respect of wood, bristles and essential oils. Work in this direction should be completed at an early date. Grading is not only necessary for articles of export but also for commodities consumed in the country. Laboratory facilities for testing quality should be organised. By the end of the Second Plan, the Central Quality Control Laboratory at Nagpur and eight subsidiary laboratories were expected to start functioning.

(c) **Lack of Transport Facilities.** "India must still be regarded as a backward country in respect both of railways and roads". There are only 28 miles of railway line per 100 square miles in India. Lower freights, cold storage facilities, and introduction of standard containers can improve matters.

India is poor in roads, too. The unmetalled roads are dusty and uneven in summer and swamp during rains. No wonder the villager prefers selling his produce in the village. A proper co-ordination of roads and railway services is necessary. Water transport is cheap and has great possibilities.

(d) **Lack of Marketing Intelligence.** The lack of up-to-date market information places the farmer at great disadvantage. It also causes variations in prices in different markets. Commercial agencies do not make their information public. Daily market prices of some commodities are broadcast from A.I.R. stations, but the number of receiving sets in the villages is not adequate. The Marketing Staff should collect prices from "key markets" and disseminate them to country markets. The Second Plan provides for the setting up of an all-India market news service for farmers.

(e) **Multiplicity of Intermediaries.** There is a large number of intermediaries between the cultivator and the consumer. We have seen that the 'beopari', 'kacha arhtiya', 'dalal', 'pacca arhtiya', wholesaler and retailer, all earn a living. Each of them gets his reward. Some of them are whole superfluous, e.g., the 'dalal'. By marketing through the village co-operative society, the consumer may be approached directly. It is, however, impossible to develop co-operative marketing to such an extent as to carry on the marketing of all rural goods in India. However, it was expected that at least 10% of the marketable surplus would be handled by co-operative agencies by 1961. Provision of good roads and the establishment of well-regulated markets, easy of access to the cultivator, will help the farmer to sell his produce at fair prices.

(f) **Lack of Storage and Warehousing Facilities.** Due to the lack of financial reserves the cultivator has to sell his produce just after harvest. He keeps back only what he needs for consumption or for seed. He, therefore, does not even think of storage structure. He stores grain largely in huge earthen containers, in pots and sacks, or in 'khattis' underground. In larger markets produce is stored in 'kothas'. Underground storage exposes the produce to white ants, rats and damp. Storage facilities must be improved and increased. Licensed warehouses in important 'mandis' are essential.

The Rural Credit Survey Report recommended the creation of a Central Warehousing Corporation and States Warehousing Corporations. These recommendations have been implemented or are being implemented. During the Second Plan 16 Corporations were to be set up and they were to establish 250 warehouses at different centres with a total storage capacity of a

million tons. The Central Corporation was to set up 100 large sized warehouses at 100 important centres. On the basis of warehouse receipts banks can make advances to those who deposit produce.

(g) **Fraudulent Practices.** Another defect of the present system is the existence of a number of practices which defraud the cultivator-seller of a part of his price. Some of these practices are: (i) the same 'arhtiya' and 'dalal' act for both buyer and seller; (ii) settlement of price under cover; (iii) false weighments; (iv) a variety of charges, etc.

When the same agents act for buyers and sellers getting commission from both sides, the interests of the cultivator suffer. In a **settlement of price under cover,** the seller is kept in the dark until the price is settled. This does not inspire confidence in him. Price should be settled openly.

A large variety of weights and measures is used in the country. In the same market, sometimes two sets of weights are used, one for buying and another for selling. Laws have been passed in different States to standardize weights. The evil, however, has not disappeared. A Standard Weights Act was passed by the Central Legislature in 1939 to enable the provinces to introduce uniform weights and measures in all States. This led to smoother marketing of produce. But still a good deal remains to be done. Large markets should be equipped with weigh bridges over which first the loaded and then the unloaded cart may be passed, thus checking the weighments done in the market.

The greatest scandal of present-day marketing in India is the multiplicity of charges levied on the seller. The total percentage for wheat varies between Rs 1-7-2 in Punjab to Rs. 3-4-1 in U.P. and Rs. 3-12-2 in Madhya Pradesh. The charge is high. The seller always pays more than the buyer.

These charges are the sum total of items like commission, cooliage, weighment tips, charity for temple and 'Gaushala', etc. The seller can save about 50% of these charges if he sells through the co-operative shop. Why should the seller pay to the buyer's servant, his 'dalal' and his charitable activities? Superfluous charges should be made illegal and others made uniform. Attempts have been made to achieve this object in regulated markets.

For the improvement of agricultural marketing essential steps, therefore, are: (i) Grading of produce; (ii) standardisation of weights; (iii) standardisation of market practices; (iv) reduction of intermediaries and preventing exploitation by starting co-operative societies; (v) provision of storage and warehousing facilities; and (vi) processing of some commodities co-operatively. In order to promote orderly marketing in the country the Directorate of Marketing and Inspection is doing a lot of useful work in the form of grading and standardisation of agri-

cultural commodities, regulation of matters and market practices, marketing investigations and surveys, training of personnel in agricultural marketing, etc.

Regulated Markets

Two reforms are usually suggested to save the cultivator from the evils of the present system and to ensure him a fair price. One is establishment of regulated markets and the other is marketing through co-operative societies. These two proposals have already to some extent been put into practice. Regulated markets aim at eliminating unhealthy market practices and reducing marketing charges with a view to benefiting the producer.

Regulated markets for cotton date in Berar from 1897. The Agricultural Commission recommended similar markets for other areas. Bombay passed a more comprehensive law—the Bombay Agricultural Produce Markets Act. Such legislation is in force in most of the States.

At the commencement of the First Five-Year Plan in 1950-51, there were 262 regulated markets in the country and by the end of the First Plan, the number rose to 450. In the Second Plan, this number was to be doubled. In 1963 there number rose to over 1,000. In the Third Plan, it is proposed to bring the remaining markets within the scheme of regulation.

The main features of the Acts regulating these markets are as follows:—

(a) A Market Committee is set up in each market to administer it. The Committee represents growers, commission agents and traders, local bodies and the State Government. The Committee is selected by the Government from among a panel of names submitted by the non-official members of the District Board and by traders in the market.

(b) The Market Committee is to standardize the various market practices and charges and keep standard weights. Market charges are fixed, current weighment is ensured and unauthorised deductions are disallowed. The Committee sees that one broker does not represent both buyer and seller and ensures fair play. In cases of dispute, it will provide arbitration facilities.

(c) The Act provides for the licensing of brokers and weighmen and prescribes penalties for breach of law.

The provision of these facilities will encourage the peasant to take his produce for sale to the regulated markets and earn him a fair price for his goods.

The Directorate of Marketing and Inspection undertakes activities in regard to (a) grading and standardisation of agricultural commodities, (b) regulation of markets and market prac-

ties, (c) marketing investigations and surveys, and (d) training personnel in agricultural marketing.

Co-operative Marketing

There are four important stages through which the produce of the cultivator passes. They are processing, storage, transport and marketing. These are even more important for the purpose of benefiting the cultivator than credit itself. Some of these activities have been organised co-operatively with distinct success. In regard to all the various stages, "the importance of planned co-operative development and of effective **State participation,** which alone can bring about the development, can hardly be exaggerated".

An integrated programme of co-operative development embracing credit, marketing, processing, warehousing and storage was formulated on the basis of the recommendations of the Rural Credit Survey Committee of the Reserve Bank. Among its important features are: linking up credit with marketing; development of processing on co-operative lines; and promotion of storage and warehousing. A **National Co-operative Development and Warehousing Board** was set up as recommended by the Rural Credit Survey Report. It seeks to plan and promote programmes for the production, processing, marketing, storage, warehousing, etc., of agricultural produce through co-operative societies. The second function of the Board is to facilitate the setting up of Warehousing Companies in the States as well as an All-India Warehousing Corporation. State Warehousing Corporations have been set up in all States now. The Central Warehousing Corporation was set up in March 1957 with a share capital of Rs. 10 crores. The storage capacity of the warehouses of the Central and State Warehousing Corporations is to be increased to over 1.6 million tons during the Third Plan.

According to **Rural Credit Follow-up Survey,** 1957-58 (published in 1961), the performance of marketing co-operatives was far from satisfactory. During the Second Plan period, 1,900 primary marketing societies have been assisted through the National Co-operative Development and Warehousing Board. With the addition of about 600 more primary marketing co-operatives proposed to be set up during the Third Plan period, there will be a marketing society at or near each of the 2,500 'mandis' in the country.

Many advantages are claimed for co-operative marketing, e.g., more sales, stabilized production, controlled flow of supplies, increased bargaining power of growers, reduced costs, more efficient service, more finances, etc. The co-operative marketing society substitutes collective bargaining for individual bargaining, can build warehouses, will advance loans to the members on the security of their produce, thus enabling them to wait for better prices; it can grade the produce and discourage the agriculturist from adulterating his produce and encourage him to

grow better grade commodities; it can arrange for cheap and efficient transport. It can also arrange for the supply of manure, fertilizers, seeds, etc.; it can set up a co-operative commission agency shop in the 'mandi'.

Co-operative marketing has achieved great success in Europe and America.[1] It was expected that in India about 10% of the marketable surplus, disposed of by the cultivators, was expected to be sold through co-operative marketing institutions by 1960-61. For the present, the number and membership of co-operative marketing societies is small, considering the size of the agricultural population or the volume of agricultural production. Co-operative marketing has progressed beyond the preliminary stages in Bombay, Andhra, Madras and U.P. Many States have established Marketing Federations. The cotton grower in Gujarat and Maharashtra has reaped considerable benefit from them. In Bombay there are societies for the sale of tobacco, fruits, vegetables, etc. They not only sell members' produce on commission basis, but in some cases, process the produce and supply manures and pure seeds. The Cane Marketing Societies of U.P. and Bihar not only protect their interests vis-a-vis factory owners but also improve the quality of cane, advance funds as well as undertake welfare activities in the villages. They supply cane to the factories and finance the purchase of seeds and manures. The Cotton Sale Societies of Bombay are outstanding examples of co-operative success. They gin and press cotton for members as well as insure the produce. The marketing operations are expected to go up to Rs. 400 crores during the Third Plan.

At the end of June 1962, there were 21 State, 151 Central and 3,007 primary marketing societies in the country with a total membership respectively of 5,145, 86,645 and 16,49,449. Their working capital respectively was Rs. 10,97.32, Rs. 11,61.98 and Rs. 32,27.16 lakhs. Very few societies undertake parting, grading and standardisation of agricultural commodities which are of great importance in agricultural marketing. Co-operative processing has made some progress though it has still to make much headway to be effective. At the end of 1960-61, there were 3,103 processing societies with a membership of 1,20,948 and working capital Rs. 322.52 lakhs.

The manifold benefits accruing from co-operative marketing have resulted in plans for its large-scale development, but there is still a vast scope for improvement. The need to link together co-operative marketing, finance and consumers' societies has been very much stressed. Unless marketing societies act as a channel for the recovery of loans given by agricultural credit societies, the recovery of cultivation loan cannot be satisfactory. Not much progress has been made in the direction so far. Licensed warehouses are recommended to enable storage of producing and to facilitate the creation of short-term bills to finance marketing.

1. *See* Kulkarni, *Agricultural Marketing in India.*

Suggestions for Development. The following suggestions for further development of co-operative marketing can be made.

(1) Several agricultural commodities can be more favourably marketed if they are processed before sale, e.g., cotton by ginning and pressing. In such cases, **processing should also be done co-operatively by the growers.** Gujarat cotton sales societies have already established their own ginning factories and presses. Recent successful examples are the co-operative sugar mills started by the cane-growers in Gujarat and Punjab. These mills have not only ensured them better prices but have also helped them in improving efficiency of production through the supply of manures, fertilisers and seeds and through providing long-term credit for development. Co-operative oil mills and jute baling plants may be cited as further examples of where there is a great scope for and advantage in co-operative processing.

(2) In the case of those commodities which can be marketed without elaborate processing, marketing co-operatives should develop direct dealings with the consumers' co-operatives, and thus save middlemen's costs, etc.

(3) Since the State Co-operative Banks and the Reserve Bank of India make advances to marketing co-operatives on the basis of the share capital of the latter, these should improve their share capital, etc. It is necessary that marketing co-operatives should be provided with adequate working capital.

(4) The State Bank of India should pay special attention to the financing of co-operative marketing and processing societies and should make systematic efforts to cater to their special needs so as to develop business directly with them. This becomes necessary because their requirements of finance are in many places beyond the capacity of local co-operative banks.

(5) The area served and commodities dealt in by the marketing co-operatives should be extended, the former to, say, a tehsil. Only then will they be able to afford the employment of trained persons.

(6) Warehousing facilities, especially in the mandis, must be extended, because only then will the sale co-operative be able to obtain financial accommodation from banks. Accordingly, State Governments should subsidise the co-operatives in building their godowns. Licensed warehouses may also be encouraged. Several States have enacted Warehousing Acts.

(7) Grading facilities should be made available to the marketing co-operatives by the Government.

(8) Special emphasis should be put on developing co-operative marketing in areas of Communi y Projects and National Extension Service.

(9) Steps should be taken to overcome the hostility of private trade to co-operative marketing societies.

(10) Now that, since April 1959, **State trading** has been undertaken in foodgrains, steps may be taken that the entire marketable surplus of foodgrains be purchased by co-operative marketing societies. (Unfortunately, Government decision on State trading in foodgrains has been considerably soft-pedalled so as to make it almost harmless for private trade.)

(11) As has been very strongly recommended, marketing co-operatives should be strengthened through the **linking of credit with marketing.**

(12) Facilities should be created for the training of personnel for managing and running the marketing co-operatives.

(13) The programmes for the production, processing, marketing, storage, warehousing, etc., of agricultural produce **through co-operative societies** should be properly planned and implemented. This can be done if an all-India Board for the purpose is set up. While with these objects in view a **National Co-operative Development and Warehousing Board** has recently been constituted, it has yet to function effectively for the achievement of these objects.

The development of agricultural marketing on the above lines aims at reorganising the existing system in order to secure to the farmer his due share of the price paid by the consumer and subserve the needs of the planned development. The objectives are sought to be achieved through the regulation of markets, standardisation and grading of commodities and development of marketing and processing on co-operative lines. A well-defined programme of co-ordinated activity on the part of credit and marketing societies has been laid down, according to which the credit society would be responsible for the supply of production loans and will act as a feeder to the marketing society, and the marketing society, in turn, will sell the produce and act as a recovering agent for the credit society.

National Agricultural Co-operative Marketing Federation was registered in 1958-59 with the object of co-ordinating and promoting the marketing and loading activities of its members in agricultural and other commodities. It has also to arrange for the supply of agricultural requirements like seeds, agricultural implements, etc.

Government Measures for Improved Agricultural Marketing

The Government maintains marketing organisations both at the Centre and the States. The work of such organisations falls into three divisions: (i) **investigation,** (ii) **development,** and (iii) **grading.** Investigation work consists of preparing marketing surveys of important commodities, discussion of the problems of regulated markets and those of transportation, storage, etc., of agricultural products. Development work follows such surveys and consists of measures taken to give effect to the suggestions formulated after investigation. Grading is a purely technical

work and consists of determining different grades and standards of agricultural commodities after the study of their chemical and physical properties.

The Government Marketing Organization has been doing very useful work, e.g., (i) **Marketing surveys** of a large number of agricultural commodities have been prepared and published. These discuss all the problems connected with the marketing of the commodities surveyed and suggest remedial measures. (ii) Much technical work on **evolving grades and standards** of agricultural goods has been done. **The Agricultural Produce (Grading and Marketing) Act** was also passed in 1937 under which the Government have set up grading stations for several commodities like 'ghee', flour, eggs, etc. Such graded goods bear the **Ag-Mark** which helps the producer to sell more and at higher prices. In the Five-Year Plans also, large funds have been provided for undertaking the grading of oil-seeds, tobacco, cashewnuts, wool, etc., with a view to stimulating their exports. In the internal trade, notwithstanding the slightly higher cost of graded products as compared to ungraded stuff, the former have attracted discriminating consumers. In the field of export trade the reputation of Indian products in foreign markets has improved considerably with the introduction of compulsory quality control schemes. (iii) The **contract terms** for several commodities (wheat, groundnut, etc.) have been standardized. This has widened their markets. (iv) **Market intelligence** has been improved by arranging daily broadcasts by All India Radio of the closing rates of agricultural goods and weekly broadcasts regarding prices, stocks and movement of certain staple commodities.

A much more important contribution of the Government to the improvement of agricultural marketing in India has been the **establishment of Regulated Markets** in several States. The total number of markets regulated so far stood at 978 in 1963 as against 645 in 1959. With their establishment the serious malpractices in mandis have been removed. Some of the States, particularly Madras, Bombay and Orissa, have subsidised the building of godowns in mandis to provide storage facilities to growers. At the village end, the Government has helped in the establishment of **primary co-operative marketing societies.**

All this work done by the Government is quite impressive, but a great deal remains yet to be done. There is no doubt that regulated markets and co-operative marketing societies have been set up, but considering the size and population of the country the numbers in respect of both are very small. A very serious deficiency still persists. The means of **transport and communications** are still most inadequate. Most of the villages remain unconnected with the mandis. Until easy and cheap means of transport are developed, the grower will not be able to reap the benefits of regulated markets.

Moreover, though much has been done by the Marketing Organization in the field of "investigation", **much more should have**

been accomplished in respect of "development", i.e., the suggestions made in the marketing surveys should be implemented to a greater extent. Even in respect of the market surveys completed, the data contained in some of them are now largely out of date. There have been substantial changes in the pattern of agricultural production and in the composition of foreign and internal trade. It is therefore essential that fresh studies should be undertaken and the data brought up-to-date. For important crops, apart from all India studies, **regional studies should also be made.** In respect of the grading of agricultural produce, although the necessary law was passed as long ago as 1937, progress has not been adequate, except in regard to certain export commodities.

Not that the Government is not conscious of "the little done and the vast undone" in the field of agricultural marketing. Accordingly in all the three Five-Year Plans, considerable attention has been given to, and large funds provided for, improving the system of agricultural marketing in the country. The measures adopted have included the establishment of a **chain of cold stores** for storage of perishable articles, **building of warehouses** at important trading centres, provision of **training facilities** both at home and abroad for marketing staff, **standardisation of weights and measures** throughout the country, **popularisation of grading agricultural products, increase in the number of regulated markets**, and the **extension of co-operative marketing.** For example, for providing laboratory facilities for testing quality and purity of agricultural products applying for the Government's Ag-mark, a beginning has been made with the setting up of the **Central Quality Control Laboratory** at Nagpur and eight **regional quality control laboratories.** Out of nearly 2,500 wholesale assembly markets in India nearly 1,000 have bene brought within the regulatory orbit in various States till June 1961. As a result of rationalisation of market charges alone, it is estimated that there has been a net saving of Rs. 8.6 crores per annum to the users of these markets. Until 1944, less than 40 per cent of the produce was taken to these markets. The average has now gone up to 70 per cent.

But perhaps the most important single measure adopted by the Government in recent years in the sphere of agricultural marketing has been the setting up of the **National Co-operative Development and Warehousing Board** (in 1956). This Board's functions are very comprehensive: to plan and promote programmes for the production, processing, marketing, storage, warehousing and import and export of agricultural produce through co-operative societies. A positive encouragement to co-operative marketing has been given by the Government's decision to reserve licences for processing plants for co-operatives instead of giving such licences to industrialists or joint-stock companies. Co-operative sugar factories being set up are examples of this new policy.

In order to implement the warehousing programme that the National Co-operative Development and Warehousing Board may draw up, the **Central Warehousing Corporation** was set up in 1957 with ample funds. Its main functions are to acquire, build and run godowns and warehouses for the storage of agricultural produce. It also provides banking facilities to its depositors, and imparts training in scientific storage, marketing and other allied subjects.

Most of the States have also recently set up **State Warehousing Corporations** with functions similar to those of the Central Warehousing Corporation. By May 1961 the State Warehousing Corporations had set up about 265 warehouses with a storage capacity of 80,00,000 maunds.

The Central Government has at present a total storage capacity of about 2.5 million tons, of which about a third is owned by the Government. The warehouses of the Central and State Warehousing Corporations have a storage capacity of about 350,000 tons, this is to be increased to 1.6 million tons. In addition, the capacity of the godowns of co-operative marketing societies and primary societies is expected to go up from about 8,00,000 tons to about 2 million tons. The Third Plan has allotted Rs. 25 crores for the construction of additional godowns by the Government for the storage of foodgrains and Rs. 8 crores for warehousing programmes. While Central warehouses are set up at centres of export or inter-state trade the warehouses set up by State Warehousing Corporations are established at places which are of importance to the State trade only.

Stabilisation of Agricultural Prices

No amount of improvement in marketing can, however, help the cultivator unless he is ensured remunerative prices for his products. Stabilization of prices prevents extreme fluctuations, i.e., extremely low prices during depression and very high prices in droughts and scarcities. Stabilization of prices assures the agricultural producer a better standard of living and provides an incentive for improved production.

"The hard core of the problem of stabilization of agricultural prices generally is the stabilization of the prices of rice and wheat."[1] This is because (i) about 80% of the land in India is under food crops and almost half of the area under food crops is under rice and wheat. (ii) Food prices are generally the most important element in the cost of living of non-agriculturists. The following steps are necessary to stabilize prices.

(i) Determination of the level at which the prices of particular commodities have to be stabilized. It should be fair both to the producer and to the consumer.

1. Final report of the Bengal Finance Commission.

(ii) Maintenance of reserve stocks by Government. Stocks may be secured through trade channels or directly, or through imports, but they should be enough to supply the commodity at the price fixed through fair price shops.

(iii) The Government should maintain the price within the fixed range by buying and selling the commodity at maximum and minimum prices respectively as the need may arise. Private trading should be permitted only within this range. If the price tends to fall below the fixed minimum it should be pushed up by: (a) stimulating exports, or (b) by purchases for addition to Government reserves. If the price tends to rise above the maximum, the Government should: (a) prohibit exports, (b) arrange imports, and (c) release their own stocks at lower prices.

Difficulties

The scheme is, however, beset with several difficulties: (1) Our agriculture comprises small and scattered producers. Such a situation is middleman's paradise. In a country of millions of small agricultural producers, the Government purchaser will have no contact with actual producer. A chain of middlemen is bound to be forged unless the Government had a very wide network of its own functionaries in each village.

(2) The Government has not got adequate storage accommodation. Without it Government purchases may be on too limited a scale to have any influence on the market.

(3) The huge finance needed is another question mark. The Government funds may be locked up for long periods or heavy losses may be suffered. The Government may not be able to bear the burden.

But the task is not so formidable as it may appear at first sight. The experience of 1955 is quite encouraging.

In 1954-55, there was a sharp fall in agricultural prices. This was due to a run of three good monsoons, followed by dishoarding of foodgrains. The steep decline was liable to cause widespread distress. A measure of price support was announced for certain commodities and was put into operation in some States including the Punjab, in the case of wheat, maize, bajra and jowar. The position soon corrected itself.

The reverse position has appeared during the last three years. The Government has been selling through the fair price shops some of its reserve foodgrains and has thus checked the rise in prices of wheat and other foodgrains.

As a measure of support to wheat prices in 1962 harvest, the Government decided to guarantee a price of Rs. 13 per maund. The Government thus took a positive step to safeguard the interests of the producer as against the consumer. The agriculturist should have the incentive to put in greater effort to increase production. If necessary, the Government will make

arrangements for the purchase of wheat from the farmers at this price.

Thus it can be seen that the Government of India has successfully put into operation the policy described above.

Marketable Surplus

As in all developing countries, so in India, marketable surplus has a vital role to play in the economic development of the country. A distinction may be made between marketable surplus and actual surplus. This distinction is clear from the fact that the entire surplus of agricultural product does not come to the market. This is due to the various institutional, customary and economic factors. In India there are a number of causes which have resulted in a low marketable surplus and it is very necessary to adopt some measures to increase this surplus so as to assist rapid economic development. There are also a number of factors, economic and non-economic (i.e., religious and social) on which marketable surplus in a country depends.

Causes of Low Marketable Surplus

A number of causes have conspired to keep the marketable surplus in India very low. The result has been to retard the economic development of the country. It also has meant misery and starvation in any year when the crop situation is unfavourable. We give below some of the very important causes of the low extent of the marketable surplus in India.

1. **Uncertain and Inadequate Rainfall.** Since we are concerned here with marketable surplus of the agricultural produce, rainfall happens to be a governing factor. It is well-known that rainfall in India is not only inadequate but also precarious. Unfavourable rains affect the entire economy of the country. Indian agriculture is said to be a gamble in the monsoons. Inadequate rainfall means smaller agricultural productivity and smaller marketable surplus.

2. **Absorption in the Village.** According to the Rural Credit Survey Report, 65% of the total sales of crops is effected in the village and a large volume of the product passes hands on the basis of credit. The big farmers lend some of their surplus to the villagers who need them either as seed or as food. This reduces the marketable surplus. It has been estimated that in the case of foodgrains the marketable surplus forms only about one-third of the total product. Cereal-wise the marketable surplus of rice, wheat and other foodgrains constitutes 32.1%, 35% and 25% of their respective productions. Since the ordinary farmer himself consumes inferior and coarse grains and sells the superior ones, the marketable surplus in the case of rice and wheat is higher.

3. **Low Productivity.** Surplus in the ordinary sense means total production minus total consumption. In India the agricultural yields are comparatively very low. The main reasons are

lack of irrigation facilities, primitive methods of cultivation, lack of capital, old and inefficient implements, insufficient manuring, etc. Since the productivity is low, the marketable surplus is bound to be low.

4. **Subsistence Farming.** In India agriculture is being carried on more as a mode of life rather than as a business proposition. It is known as subsistence farming. In other words a cultivator is more anxious to meet his domestic requirements rather than become rich by selling his products in the market. The motive for maximisation of gains is almost said to be non-existent. This being so the marketable surplus in India must be small, because to attain any surplus does not seem to be the aim of the Indian agriculturists. It is only in commercialized agriculture that much surplus can emerge.

5. **The Other-worldly Attitude.** The Indian peasant is also said to be dominated by spiritual or other-worldly attitude in which striving for material transitory things is of much less significance than striving for a higher spiritual life. This ascetic outlook on life keeps his attention away from attaining any measure of material prosperity. The peasants maintain themselves with rudimentary food, clothing and housing and have no desire for a higher and better standard of living with the result that they do not make much effort in order to produce more. Also a substantial portion of the produce is frittered away in gifts and charities, payment to the family priest, for the village temple, etc. This also accounts for low marketable surplus in India.

6. **Joint Family System.** This system is a vital part of the Indian social life. In a family we generally find one is earning and he is supporting a number of non-working dependents. Most of the dependents are either non-employed or under-employed. These unemployed dependents eat away much portion of the agricultural produce and reduce the marketable surplus.

7. **Wasteful Social Ceremonies.** A big portion of the marketable surplus is also wasted in what is known as conspicuous consumption like religious ceremonies, feasting, giving charities, feeding beggars and 'sadhus', performing pilgrimages, etc. The Indian peasant regards the good harvest as a special grace of God. Hence such wasteful expenditure. Since agriculture is only a way of life and a way of life wedded to strong religious and ethical principles, quite a large portion of the agricultural products is utilized for non-productive purposes, as mentioned above. All this goes to reduce the marketable surplus.

8. **Limited Mental Horizon.** It is seen that in all under-developed countries, agriculturists have a very limited mental horizon. Owing to ignorance, psychical and cultural factors, customs and taboos, etc., wants are very much limited. A simple life means simple and small production and little or no surplus.

9. **Preference for Leisure.** In under-developed countries specially having tropical climate, people are lethargic by nature.

They love leisure and riches have no lure for them. The result is that when prices are high, they are able to earn more by selling a small quantity. They, thus, curtail work. In other words the elasticity of demand for income in terms of efforts is very low. They strive not for material gain but to have mere subsistence. When this subsistence is secured, they retire and relax. That is why they realise much less marketable surplus.

10. **Village Self-sufficiency.** The Indian villages, especially remote ones, are still very much self-sufficient. All the village needs are met by the village products. That seems to be the principal aim of the villagers. The question of surplus does not arise. There is no incentive for increasing production because surplus cannot be marketed. Hence there is very little surplus.

11. **Hoarding.** There is a strong tendency among the villagers to hoard enough stock of foodgrains which may last for two or three years. This serves as an insurance against scarcity, bad harvest and also with an eye on the future rise in price. Since a large portion of the product happens to be hoarded, the marketable surplus is correspondingly reduced.

12. **Defective Marketing.** Marketing deficiencies and difficulties also curtail to a very large extent the marketable surplus. In an under-developed country like India, the distributive machinery is inefficient, transport and communications are inadequate and there are a large number of unscrupulous intermediaries who grow fat at the expense of the grower. Since the farmer cannot expect a fair deal from the market, he shuns the market and the marketable surplus is reduced.

13. **High Income Elasticity of Demand for Food.** High prices in recent years have led to increased consumption on the part of the farmer himself. Instead of selling his product in the market, he can afford to consume it himself. Income elasticity of demand for cereals is much higher in rural areas than in urban areas. This reduces the marketable surplus.

14. **Inflation.** The impact of price changes on marketable surplus is also very crazy. Normally the producer sells more in the market when the prices rise. But in a country like India this does not happen. On the other hand, when the prices rise, less is brought to the market. It may be that the sellers expect prices to rise still higher or they are able to meet their immediate requirements by selling a smaller quantity. But when the prices fall the market arrivals increase, may be it is distress selling. In the market of Nizamabad, Mahbub Nagar and Warrangal between 1953-1954 and 1954-55, the market arrivals increased by 64% when the output and price fell by 24%. The percentage of market arrivals of the total output was highest in 1954-55 when the output and prices were the lowest. The fact is that real surplus in the hands of the farmers is only a marginal one. In a period of falling prices they have to part with a greater quantity of grains to meet their obligations. Conversely during periods

of rising prices, the majority of farm-workers consume more because their limited wants can be satisfied by the sale of less quantity. This has reduced the flow of the marketable surplus in recent years when the prices have been ruling high.

Remedies

Above we have enumerated the various causes which have reduced the marketable surplus in India. These causes easily suggest the remedies that can be adopted to increase the marketable surplus. The measures to be taken in this connection must be such as-to counteract these causes. In particular we may mention the following remedies.—

1. **General Education.** By means of general education we can sharpen the desire to improve the standard of living among the mass of Indian peasantry. They can be taught that aiming at material prosperity need not necessarily take away from the spiritual aspect of their life. On the other hand by attaining material' prosperity oneself, one can help others. He can give more in charities, go more on pilgrimages and feed the 'sadhus' more, and so on. Right type of education can remove some of the wrong effects of the so-called religious and spiritual outlook and the other-worldly attitude. As Malthus said, "the greatest of all difficulties in converting uncivilized country into civilized one is to inspire them with the wants best calculated to excite their exertions in the production of wealth". The marketable surplus would increase if wants are responsive to increased prosperity than if they see otherwise. Unless the self-sufficiency of the village is broken and there is a greater division of labour and new wants are generated and production is commercialized, marketable surplus will not increase

2. **Curtailing Consumption.** (a) Through forced collection of the produce; and (b) Taxes.

Normally marketable surplus can be increased by increasing productivity But it is possible to increase the surplus even without increasing productivity Productivity remaining the same, the marketable surplus can be increased by curtailing consumption of the product by the farmers themselves. This consumption can be curtailed in two ways:

(a) Forced collection of the product may be made from the farmers as was done in India by means of procurement schemes. In Russia collectivisation was adopted and the farmers were forced to part with their product in the national interest. Collectivisation is not a practical proposition in India. But some form of procurement is feasible;

(b) The other measure to curtail consumption is higher taxation. Dr. K. N. Raj has shown how enhanced land tax and tax on agricultural land will not only increase the revenue of the State but also restore some balance between urban and rural

taxation. If the farmers have to pay more taxes they will be compelled to bring more product to the market.

3. **Price Regulation.** Prices can be so regulated as to maintain an even flow of the product to the market. We have indicated above the curious effect of the price changes. If we find that the higher prices are reducing the marketable surplus, prices can be stabilized at a little lower level. High prices of the farmer's product will have a pronounced income effect because the income elasticity of demand of the farmer is much higher for leisure than for any other product. It is, therefore, necessary to check inflation to force out a higher quantity of the marketable surplus from the farmers. In other words, the terms of the trade should be slightly adverse for the farmers, and the ratio of farm-price to non-farm-price should be less than one. Only then we can expect that the farmer will be spurred to greater effort and higher production.

4. Finally, to induce farmers to come to the market, the **marketing** facilities must be improved. This requires improvement in transport facilities, supply of market intelligence, provision of warehouses, standardisation of weights and measures, supply of credit, curbing of unfair marketing practices, and setting up regulated markets and so on. The most important thing is to integrate co-operative credit with co-operative marketing and co-operative warehousing. Credit. warehousing, processing and marketing are the four aspects of a comprehensive scheme of agricultural marketing in India. Their combined effect will increase the profit of the agriculturists and encourage them to put in greater effort to increase their output and bring more to the market.

Role of Marketable Surplus in Economic Development

It has been established that marketable surplus has played a very important role in bringing about rapid economic development of the countries concerned. This has been especially the case in Russia, China and Japan. Japanese silk, Soviet grain, Cuban sugar, Swedish timber and Malayan rubber have been used to finance the import of capital equipment. In China agriculture is being squeezed to augment export, so that capital equipment can be imported. Russia also uses its agricultural surplus for financing development of the other sectors of their economy, although this has meant hardship to their people. Thus the role of marketable surplus in accelerating the economic development of low-income agrarian economy cannot be over-emphasized. The agricultural sector is by far the largest sector in most of the under-developed countries. Naturally it must play the dominant role in bringing about a rapid economic development.

Broadly speaking, agricultural surplus helps bringing about rapid economic development in the following ways:—

(1) It provides food for that section of the population which is engaged in the non-agricultural, primary, secondary, and ter-

tiary sector of the economy. It must also provide fibres and raw material to feed the expanding industries. As industrialisation begins, there is a spurt in the growth of population, money-incomes and urbanisation. In a country like India where bulk of the population is under-fed and where the income elasticity of demand for food is very high, there is a marked increase in the demand for food when economic development takes place. Economic growth means that the secondary and tertiary sectors of the economy expand at a faster rate than agriculture. Thus there will be a great demand for food and raw materials, and to meet this demand marketable surplus must be increased. This is one very important role which the marketable surplus is to play.

(2) The agricultural sector must also serve as an outlet for the product of the expanding industries. When industries expand, industrial output increases. Unless the market for such products also expands there will be depression and distress. But if in the meantime the agricultural sector is expanded, agricultural production is increased bringing prosperity to the agriculturists, the chances of the absorption of the increased industrial output increase. In other words the agricultural sector constitutes the domestic market for the bulk of the manufactured goods. This is another role which the agricultural sector is to play.

(3) Agriculture is also to provide the basis for the import of the capital goods and technical know-how. A developing economy is to depend in the initial stages on imports. India is in that position. We must import more machinery and more technical know-how. These things we lack at the moment. But what can we give in exchange? Obviously our farm products. Hence agricultural production must be increased and handsome marketable surplus built up, even if we have to squeeze domestic consumption. Here is another important role which marketable surplus is to play in order to bring about rapid development of the country.

Thus we may conclude that if we have to cut down our dependence on foreign aid we must build up marketable surplus in the country itself.

CHAPTER XIII

Agricultural Finance and Indebtedness

Nicholson wrote in his report on Agricultural Banks in 1895: "The lesson of history is that an essential of agriculture is credit. Neither the condition of the country nor the nature of the land tenure, nor the position of agriculture affects the one great fact —that the agriculturist must borrow." Every modern business is run on credit. Agriculture, however, gives rise to peculiarly urgent problems of finance because of its uncertainties, its small unit of production, and scattered nature of its operations. These characteristics are even more prominent in India. The French proverb, "Credit supports the farmer as the hangman's rope supports the hanged." It is true that credit is indispensable. It is also true it is in some cases fatal.

The problem of rural finance in India is, firstly, the problem of old "indebtedness". In addition, the cultivator needs money to improve land, replace implements and purchase seeds, manures and cattle The cultivator also borrows for urgent but unproductive purposes.[1] The problem of rural finance is three-fold: (a) Reduction and, if possible, elimination of the existing burden of debt, (b) discouragement of future unproductive borrowing, and (c) encouragement of productive borrowing.

Our study, therefore, will follow three lines of investigation:

(i) The need of the peasant for credit; (ii) the causes and consequences of indebtedness and its magnitude; (iii) remedies adopted and the future programme.

Peasant's Credit Requirements

The peasant like other businessmen must have credit to carry on his business of cultivation. He requires three types of credit:

(a) Long-term credit for permanent improvements like wells,

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1. According to the Banking Enquiry Committee, 70 per cent of the debt in U.P., Bengal and Bombay and 60 per cent in Madras was contracted for unproductive purposes.

tanks, bunds, channels to divert water, terracing of hill-sides, clearing of jungles, drainage, reclamation, fencing, etc. The larger irrigation works are constructed by the State. Money for minor works is provided by the cultivator himself or from loans.

(b) **Intermediate Credit** for the purchase of expensive implements and cattle, or erection of buildings.

(c) **Short-term credit** for current needs like manure, seeds, fodder, etc.

It was broadly estimated by the Rural Credit Survey Report that the agriculturist in India needed Rs. 750 crores of credit in a year for all his needs.

Agencies of Rural Finance

The agencies from which the agriculturist borrows and the estimated amount borrowed in a year from different agencies as well as the percentages are given below:—

TABLE

Credit Agency	*Proportion of borrowing from each agency to the total borrowing of cultivators*	
	Amount in Rs. crores	*Per cent*
Government ...	25	3.3
Co-operatives ...	23	3.1
Relatives ...	106	14.2
Landlords ...	11	1.5
Agriculturist Money-lenders ...	187	24.9
Professional Money-lenders ...	336	44.8
Traders, etc. ...	41	5.5
Commercial Banks ...	7	0.9
Others ...	14	1.8
Total	Rs. 750 crores	100.0

The total amount borrowed in a year by the agriculturist in India for all purposes and from all sources has been very broadly estimated to be of the order of Rs. 750 crores. Now a word about each of these agencies.

(i) **Government as Credit Agency—Taccavi Loans.** The two Acts under which credit is supplied by the Government to the agriculturist are: (a) The Land Improvement Act, 1883, which provides for supply of long-term credit for permanent improvements, like sinking wells, etc. (b) The Agriculturists' Loans Act, 1884, under which short-term loans are given for seeds, implements, manures, cattle, etc. The 'taccavi' loans—as these loans are called—have not been very popular for several reasons. In the first place, it is quite true to say that "The record of 'Taccavi' is a record of inadequacies". The amount that a farmer gets as a 'taccavi' loan is negligible considering his needs. Secondly, they are given only for specific purposes while the money-lender lends for any purpose. Thirdly, the loans are secured after a good deal of delay and only after some subordinate officials have been

bribed. Fourthly, the method of collection is too rigid. Finally, the facilities available and the procedure are not familiar to the peasant.

It has, therefore, been suggested that these loans should be liberalized and delay minimized. Under the Grow-More-Food campaign the Government have adopted a very liberal policy in regard to loans and subsidies for land reclamation, chemical fertilizers, wells and tools. There has thus been an enormous increase in the disbursement of 'taccavi' loans. In 1948-49, these loans amounted to Rs. 9 crores, whereas in 1955-56 the amount rose to Rs. 25 crores.

Due to the operation of the land reform legislation and money-lenders' Act, the private sources of agricultural finance have been greatly curtailed. The Government, therefore, is making greater efforts to provide credit in other ways. And yet the amount provided by the Government is a bare 3.3% of the total loans borrowed by agriculturists in a year. This share dropped to 2% in 1957-58. One significant thing to mention is that Government loans are mainly given for production, while professional and agriculturist money-lenders lend money for consumption purposes[1] Moreover, the Government also lends to the Provincial Co-operative Banks, which in turn make funds available for financing agriculture. However, Government as an agency of rural credit remains a minor one.

(ii) **The Village Money-lender.** The most important source of agricultural credit is the village money-lender. Legislation has been enacted in most States to reduce debts and to restrict the operations of the money-lenders. Even then the professional and agricultural mony-lenders supply to the agriculturist the bulk of the total required credit. According to the Rural Credit Follow-up Survey 1957-58 (released in June 1961), the money-lenders, professional and agricultural, accounted for 61% of the rural credit in 1957-58 against 74% six years earlier.

In spite of his objectionable practices, the village money-lender is still an indispensable feature of Indian rural economy. This is due to various reasons. As pointed out by the Central Banking Enquiry Committee, "He is easily accessible. His methods of business are simple and elastic. He maintains a close, personal contact with the borrower, often having hereditary relations with his family. His local knowledge and experience and his presence on the spot enable him to accommodate persons without tangible assets and yet protect himself against losses." He supplies credit for productive as well as unproductive purposes, for short-term as well as long-term needs.

In village India—which is the true India, among creditors the money-lender and among money-lenders the professional money-lender, dominates. All attempts made up to this time to eliminate him have failed, mainly because it has not been possible

1. All India Credit Survey Report, Ch. 14.

to organise an agency to compete with him. He and only he possesses a true knowledge of his debtor's or would-be debtor's character and repaying capacity. He has various kinds of hold on him. He can immediately hand over the money to the needy peasant and does not stand in need of any sanction from any authority.

There are, however, various malpractices associated with private money-lending though they are less common now. "The money-lenders obtain bonds on false pretence; enter in them sums larger than agreed upon; deduct extortionate premiums; give no receipt for payments and then deny them; produce credit at fraudulent prices; retain liquidated bonds for sums not advanced; charge interest unstipulated for, and commit a score of other rogueries—these are facts proved by evidence." The defects of the system are patent, but it had endured in spite of its defects. That the money-lender has not been eliminated shows that Indian rural economy cannot do without him. "We think it inevitable," writes the Bengal Famine Commission, "that the private money-lender will continue for a long time to come to be the main agency for the distribution of rural credit."[1]

(iii) **Joint-stock Banks.** These banks are mostly located in towns and cities. Hence their part in the supply of agricultural credit in India is practically negligible. The growth in the scheduled banks' aggregate deposits in 1963-64 busy season, though somewhat larger (Rs. 108 crores) than in 1962-63 season, financed less than one-third of the expansion in credit. The bulk of the expansion in bank credit had to be financed, as usual, through liquidation of other assets, including cash balances and borrowings from the Reserve Bank. They mostly advance funds to trade in agricultural commodities. A few of them occasionally lend to substantial cultivators. But until licenced warehouses are developed, this agency cannot be considered as an important one.

(iv) **Co-operative credit** has been recommended as the best source of agricultural finance, the only agency that can ultimately oust the money-lender or at least keep him and his charges within reasonable bounds. Unfortunately co-operative credit is yet a small part of the total finance required by our agriculture. In 1963 the total amount of loans advanced by all the agricultural credit co-operatives was Rs. 256 crores. The outstanding amount of advances and bills purchased and discounted by the State co-operative banks in March 1964 was Rs. 197.36 crores showing a net rise of Rs. 14.46 crores over the previous year. Aggregate deposits (exclusive of inter-bank deposits and borrowings from the Reserve Bank and other banks) also increased by Rs. 7.32 crores to Rs. 49.97 crores. Outstanding borrowings from the Reserve Bank as in March 1964 were slightly lower than those a year before (Rs. 134.18 crores). The gross amount of Reserve Bank's advances to State co-operative banks rose sharp-

1. Bengal Famine Commission Report, p. 294.

ly during 1963-64 by Rs. 82 crores to Rs. 302 crores but the increase in repayments was also more or less of a similar order, with the result that the total loans outstanding at the end of the year of Rs. 135.6 crores were only marginally higher by Rs. 1.3 crores than at the end of the previous year.

As regards short-term finance the amount drawn by the State co-operative banks from the Reserve Bank during the year for seasonal agricultural operations and marketing of crops at the concessional rate aggregated Rs. 274.53 crores as compared to Rs. 184.53 crores in the previous year, an increase of 49 per cent. The outstanding borrowings at the end of March 1964 were Rs. 120.49 crores as against Rs. 119.09 crores at the end of March 1963. In the field of long-term finance Reserve Bank contributed to 75% of the issued debentures of the Kerala Land Mortgage Bank. Total debentures floated by six other State mortgage banks came to Rs. 1.50 crores and Rs. 1.32 crores were subscribed by the Reserve Bank. The Reserve Bank made a further contribution of Rs. 12 crores to the National Agricultural Credit (Long-term Operations) Fund. During the year 1963-64 loans amounting to Rs. 3.35 crores were sanctioned from the Fund to 14 State Governments for contribution to the share capital of various co-operative credit institutions During the year, the Reserve Bank made a further contribution of Rs. 1 crore to the National Agricultural Credit (Stabilisation) Fund. So far no amount has been utilised from this Fund.

In order to encourage co-operatives to admit more members from the 'weaker sections' of the community and to provide them adequate credit, the Government of India advised all State Governments to give outright grants to be credited to the special bad debt reserves of the co-operatives. Grants are to be given to each Central co-operative bank and each society at 1 per cent and 3 per cent, respectively, of the additional loans advanced by them over the previous year.

Despite these efforts of the Reserve Bank and the Government of India the credit facilities available to the agriculturists are still very inadequate. But the need for credit facilities was never greater than it is today. While on the one hand, with the increasing regulation of money-lending and the abolition of the Zamindari system, the traditional sources of credit for our agriculturists are being rapidly choked off, on the other, the cultivators are being urged to take to improved technique, seeds, fertilisers, etc. As our development plans gather momentum and the farmer goes in for modern and more costly equipment, his needs for finance will increase still further. It is, therefore, very necessary that earnest efforts should be made to improve and expand rural credit. Here are a few suggestions:—

Suggestions for Improvement

1. Since co-operative movement is the best agency of rural credit, the most important suggestion is to extend and improve the co-operative credit movement.

2. **But it will take several years for the co-operative movement to expand sufficiently to be able to provide adequate credit facilities to the agriculturists.** In the meantime, the Central and the State Governments should take an increasing share in short-term finance.

3. The system of 'taccavi' loans should be simplified, liberalised and made more prompt. However, it will be better if the Government lends through the co-operatives. This will have the additional advantage of encouraging the co-operative movement.

4. Since, however, the funds at the disposal of the Government are bound to be limited, it will be better to start some sort of credit institutions on the model of **"guaranteed credit organisations"** of U.S.A. These should be closely linked up with the Reserve Bank of India.

5. The Reserve Bank itself should play an increasing part in the provision of rural finance, especially long-term and medium-term finance. It should link up indigenous bankers who finance most of the agricultural marketing. It should also co-ordinate the various agencies of rural credit.

6. Rural savings should also be mobilised. Development of co-operative societies and encouragement of deposits in Post Office Savings Banks will be the good methods of doing the same.

7. A very important improvement will be the development of licensed warehousing. Through such warehouses, the cultivator will be brought into contact with the banking system of the country. From the banks, he will be able to borrow at cheaper rates on the security of his produce.

It is gratifying to note that steps are being already taken on the above lines. The First Five-Year Plan lays great emphasis on the development of the co-operative movement. The Reserve Bank is also making available increasingly large amounts for rural finance. The Central Government is considering the establishment of an Agricultural Finance Corporation. The recommendations of the Rural Credit Survey Committee on the re-organisation of rural credit are being implemented.

PROBLEM OF RURAL INDEBTEDNESS

Magnitude of Indebtedness

Estimates have been made from time to time as to the extent of agricultural indebtedness in India. The following estimates made at different times clearly show the trend towards growing agricultural indebtedness:—

1. Sir Edward Maclagan —1911 Rs. 300 crores.[1]
2. M. L. Darling —1925 Rs. 600 crores.[2]

1. For British India, based on Nicholson's estimate for Madras of Rs. 45 crores.

2. Based on Punjab figure of Rs. 90 crores.

3. The Central Banking Committee	—1929	Rs.	900 crores.
4. The Agricultural Credit Deptt. of Reserve Bank	—1937	Rs.	1,800 crores.

In recent years, the burden of rural debt must have become lighter owing to a continued rise in prices. Recent enquiries in Madras and Mysore, however, show that the indebtedness is again on the increase. In any case the relief on account of high prices has not passed to tenants and agricultural labourers. This is also confirmed by the results of Agricultural Labour Enquiry. The Rural Credit Survey Report 1955 estimated that agriculturists borrowed about Rs. 750 crores in a year.

Conjectural element in these estimates cannot be ruled out. But it cannot be denied that the volume of rural debt is a huge one. It represents a back breaking burden. However, the **gravity of the situation does not lie in the magnitude of the debt. It is in the nature of the debt in which rural India sins the most.** The bulk of this debt is unproductive. Borrowing is no sin; every business is based on borrowing. But borrowing for business or productive borrowing can be safely commended, and not unproductive borrowing. A productive debt is self-liquidating. It creates means for the repayment of the principal as well as interest whereas an unproductive debt is a dead weight and is cumulative.

However, the Rural Credit Follow-up Survey, 1957-58, highlights a reduction in indebtedness per family and an increase in payment of borrowings. The total amount of borrowings per family declined from Rs. 263 in 1951-52 to 218 in 1957-58, the average amount repaid increased from Rs. 77 to Rs. 102 and the outstanding debt fell from Rs. 434 to Rs. 375 [The second all-India rural debt and investment survey for 1961-62, conducted by the Reserve Bank of India, has shown that a large proportion of rural households (nearly 62 per cent) had outstanding loans in cash at the end of June, 1962. The average debt per reporting household was about Rs. 654 for all rural households, Rs. 719 for cultivator households and Rs. 429 for non-cultivator households.]

According to the latest Reserve Bank Survey of rural indebtedness relating to the year 1961-62, the amount of rural debt exceeds Rs. 3,000 crores. The average indebtedness of each of the 74 million of rural families in the country is Rs. 406. In 1961-62 alone, the rural population had to incur debts amounting to Rs. 1,332 crores which works out approximately to Rs. 180 per family. This reveals not only the appalling poverty of the rural masses of India but it also disproves the contention that the villagers are now prosperous enough to make a saving and invest in agriculture and small industry. The heavy debt contracted in one year alone proves that rural indebtedness

was not just a legacy of the past but a continuing fact of Indian economic life on which a decade of planning has made little impact nor have the efforts at reduction of rural debt through cooperatives made any impact.

Causes of Indebtedness

A debt calls for borrowers with need to borrow and security to offer and lenders with capital and willingness to lend. The willingness to lend depends upon (i) the security offered by the borrower, (ii) his capacity to repay and (iii) the existence of courts to which recourse may be had to realize the debt.

The British rule increased **opportunities** both for borrowing and lending. The need to borrow increased with the pressure of population on land. This need was not always economic. There were social needs too. The peasant's extravagant habits made resource to the money-lender inevitable. We may now summarize the causes of rural indebtedness:

1. The peasant **has** to borrow to carry on. His holding is an uneconomic unit. Frequent droughts and floods compel the peasant to borrow. Insecurity of crops is one of the major causes of rural indebtedness. The farmer cannot afford to buy implements and manures. He must borrow to meet all these needs, since his income is low. His low income is due to the factors like small and fragmented holdings, failure of crops, his poor physique and ill-health, his utter ignorance and conservatism and absence of side-line industries (a second string to his bow), etc.

2. Heavy cattle mortality is another reason. His cattle are mere bags of skin and bone. There is not enough for them. They die of drought and disease. As the peasant has no resources, he is compelled to borrow to buy bullocks.

3. The peasant's habits are improvident. He has neither the capacity nor the inclination to save. Thrift is not one of his virtues. In the absence of savings, borrowing becomes essential.

4. The peasant's extravagant expenditure upon marriage and other ceremonies adds to his total debt. Normally, the peasant leads a frugal, even a miserly life. But consideration of family status and dignity leads him to reckless expenditure on social ceremonies.

5. The money-lender does not let the peasant escape once he is in his clutches. The vicious system of money-lending is responsible for a large proportion of rural debt. The exorbitant rates of interest charged by the money-lender, manipulations of accounts, and the numerous and ingenious frauds and malpractices he indulges in, create a situation from which the simple-minded, poor and helpless farmer cannot extricate himself.

6. The inflated values of land and its produce tempt the peasant to borrow and the money-lender to lend. Thus it is not merely poverty which is responsible for debt but also prosperity.

Poverty explains the necessity for borrowing and prosperity the facility thereof. A poor man borrows because he must, whereas a rich man borrows because he can. The inflated land values brought the farmer a measure of prosperity which he utilised in raising his standard of living and of social ceremonies. He found the money-lender only too willing to oblige him.

7. Land revenue is quite a heavy sum for the **small** holder to pay. He has no cash resources and is often compelled to borrow to pay revenue, even though it averages only about Rs. 2 per acre.

8. Ancestral debt is an important cause of indebtedness. It is said that a farmer is born in debt, he lives under debt and passes his debt on to those who follow him after death. He could easily shake off the ancestral debt by giving up his claim on ancestral property. But his sense of family honour would not let him do that.

9. Litigation is also responsible for indebtedness. Normally, a peasant is a peace-loving person. He believes in **Panchsheel** (co-existence). But when he is provoked and his passions are aroused there is no stopping him from a fight. To win a law suit becomes his hobby. Litigation has ruined rural population.

Thus, a whole host of causes have conspired to create this baffling problem of agricultural indebtedness. Both the necessity to borrow and the opportunity or facility to borrow have contributed to the heavy burden of rural debt.

Consequences of Indebtedness

Money borrowed for productive purposes results in increased prosperity. Used for unproductive purposes, a loan is an ever-increasing burden. It leads to all kinds of evil consequences —economic, social and moral.

(i) **Economic Consequences.** Indebtedness leads to inefficiency. When the cultivator finds that his efforts merely benefit his creditor, he loses all interest in improving his position. Productivity thus decreases. It is bad not only for the peasant who is in debt but is also very detrimental to agriculture as well. If indebtedness results in mortgage and sale of land, as it has done in all parts of the country,[1] it means an increase in tenant-cultivators and landless labourers. Tenancy cultivation is admittedly a very inferior system of farming. In the marketing of his produce also the debtor-peasant suffers. He has to sell it to his creditor on the latter's terms. This means lower monetary returns. Thus private credit has served as a drag on agricultural progress in India.

(ii) **Social Consequences.** Due to clash of interests, friction arises between the creditor and debtor. The increase of a

1. In Bombay the agriculturists lost nearly 5 million acres of land to the non-agriculturists between 1926 and 1937. This is illustrative of the tendency in all States. That is why land alienation laws had to be passed.

landless class with no avenues of employment creates social discontent and causes political agitation. Communism finds a fertile ground in such circumstances.

(iii) **Moral Consequences.** The cultivator loses his property and, in many cases, his economic freedom. In certain States, a large number of cultivators are in a state of serfdom. Says Prof. P. J. Thomas, "A labourer borrows a small sum to celebrate a wedding or funeral, but in return he has to work for the lender. He can never save up the amount needed, and the transaction becomes an indenture for life."[1]

Remedial Measures

The problem can be attacked from two angles—settlement of old debts and control over new ones.

(1) **Settlement of Old Debts.** It is obvious that unless the burden of old debt is reduced, there is no hope of agricultural advancement. We can declare the debtor insolvent where his assets fall short of his liabilities. "No one desires to see a wholesale resort to insolvency," wrote the Agricultural Commission, "and no one desires to witness a continuation of a system under which people are born in debt, and live in debt and die in debt, passing on their burden to those who follow."[2] In some States legislation has been passed permitting declaration of insolvency under certain conditions and in others scaling down and conciliation of debts.

Though differing in details, laws passed in most States have common features. They all provide for the establishment of Debt Conciliation Boards representing debtors and creditors The Board can apply persuasion to conciliate debts and reduce them. Instalments are then fixed with due regard to the paying capacity of the debtor ranging over a period of 15 to 20 years. Repayment of conciliated debts is then made essential.

Measures relating to compulsory scaling down and liquidation have been taken in several States like Madras, Madhya Pradesh, Bombay, Uttar Pradesh, Mysore and former Travancore.

The main objects of these Acts were:

(i) Reduction of outstanding debts so as not to exceed the principal ('damdupat'), less all payment received by the creditor,

(ii) reduction of arrears of interest, and

(iii) fixing of the rate of interest for subsequent years.

(2) **Control of New Borrowing.** The second approach to the problem of indebtedness is to discourage unproductive borrowing. This can be done through propaganda and spread of education. Village Panchayats can do a great deal of work in this connection.

1. Mukherjee—*Economic Problems of Modern India*, Vol. I, p. 172.
2. Report, pp. 440-41.

But persuasion may take long to produce results. In the meantime, the peasants must be saved. This can be done partly by measures to limit his credit. Credit can be reduced by limiting the transfer of right in land. **Besides**, the temptation to lend can also be curbed by restricting the power to attach peasant's property. **In addition**, lending can be so regulated as to make fraudulent practices impossible. Most important of all, the lending agency should as far as possible be the co-operation society which will lend for productive purpose only.

Let us consider these measures in detail.

Restrictions on the Borrowers. The most important of these are legal restrictions on the transfer of land as laid down by the Punjab Land Alienation Act of 1901 and U.P. Act of 1903.

These Acts achieved their main object of restricting the transfer of agricultural land from agricultural to non-agricultural classes. Some evasion, however, took place through 'benami' transactions by which transfers were nominally made in favour of an agriculturist while the real benefit was received by the non-agriculturist money-lender.

It has to be admitted, however, that now the agriculturist money-lender, in place of the non-agriculturist, bought up the peasant's land and reduced him to the status of a tenant.

After the Republic of India came into being, the Punjab Land Alienation Act, 1901, was considered repugnant to the Constitution and was repealed by the President. There are, however, still certain restrictions on transfers to non-agriculturists in some States but the word "agriculturist" is defined to mean "any person who takes to agriculture".

In addition to the restrictions on the transfer of land, there are restrictions on the attachment or sale of implements and cattle necessary for tillage, and the agriculturist's house. This discourages the money-lender from lending

Restrictions on the Lender. The restrictions on the borrower are also restrictions on the lender, because they make the latter more cautious in lending. But there are some direct restrictions on the money-lender, like provisions for his registration and licensing, regulation of his accounts, limitations of rates of interest that he can charge, and so on.

These provisions are contained in a number of Acts passed by various States. There is also the Usurious Loans Act, 1918, passed by the Centre. It aims at fixing a maximum rate of interest. The Act was a dead letter. Hence it has been amended in almost all States and it is now compulsory for courts to reopen accounts, and reduce the rate of interest.

Main Features of Debt Legislation

The laws passed in the various States to tackle rural indebtedness provide generally for the following:—

(i) **Registration and Licensing of Money-lender.** The money-lender has to get himself registered and take out a licence in some States before he can do business. In case of dishonesty, the licence can be cancelled. An unlicensed money-lender can be punished with fines. It is not easy to enforce the law in practice.

(ii) **Regulation of Accounts.** The money-lender has to maintain accounts and furnish his debtor with a periodic statement of his liabilities. In some States a statement is applied only on demand by debtor. Penalties are provided for failure to do so. Entry of fictitious amounts is punishable with fines. However, the debtor's urgent need and his ignorance of his rights make the law ineffective.

(iii) **Limitation of Interest Rates.** Maximum rates of interest chargeable are fixed by law. Distinction is made between secured and unsecured loans. The latter usually pay a higher rate. The rate of interest varies in States from 9 to 12½%. In almost all States, total interest on a loan cannot exceed its principal.

It is very difficult to enforce rates of interest. The lender can always charge a higher rate from a needy borrower either by an agreement out of court or by entering as principal a sum bigger than actually loaned. Such abuses have come to light.

(iv) **Miscellaneous.** Other provisions relate to protection of the debtor from molestation. They exempt his holding, his implements, and other assets from attachment in payment of debt.

Estimate of Indebtedness Legislation

There is no doubt that the measures adopted by the Government for tackling rural indebtedness have brought some relief to the cultivators. The co-operative movement also has, to some extent, loosened the grip of the money-lender over him. But it will not be correct to conclude that these laws were able to tackle effectively the problem of rural indebtedness.

The various measures of debt legislation have had the immediate effect of contracting credit. The money-lender has almost wound up his business and has migrated to the towns in search of some other avenues of investment for his money. Insofar as it has decreased the chances of borrowing for unproductive purposes, it has proved to be a blessing in disguise. But the loans for genuine productive purposes are also not available and consequently enterprising agriculturists are seriously handicapped in extending or improving agricultural operations. From this point of view this legislation has proved positively detrimental to the interest of agriculture and agriculturist.

These legislative measures have failed to tackle the real problem. There is no doubt that the volume of indebtedness has decreased partly owing to these measures but more so owing to recent high agricultural prices. But so long as agriculture re-

mains a losing business, the problem is bound to raise its ugly head. A careful review of the effects of this legislation in all States in India shows that it has not brought any material improvement. It has been quite ineffective. The legislative control, says the Rural Credit Survey Report, "has had little effect on the money-lender or his operations beyond putting him to the necessity of devising a variety of legal camouflage for a whole variety of illegality".

The money-lending legislation has been ineffective because no or very few complementary measures were taken to induce changes in the required direction. Such measures would be to strengthen institutional agencies in the sphere of agricultural credit. The most comprehensive suggestions in this regard were made by the Agricultural Finance Sub-committee of the Policy Committee on Agriculture in 1944. They were:

(i) Need to fix the maximum rate of interest at a level not unduly low.

(ii) Need to have an adequate system of supervision and enforcement.

(iii) Inclusion of a number of points to properly control and supervise the money-lender in comprehensive piece of legislation, e.g.,

(a) Registration; (b) Licensing of money-lenders; (c) Proper maintenance of accounts; (d) Non-entering of amounts larger than those lent; (e) Periodic furnishing of accounts; (f) Issue of receipts to debtor; (g) Limitation of rate of interest; (h) Rules of 'Damdupat'; (i) No unlawful charge for expenses like 'girakholni', etc.; (j) Provision to deposit in a court an amount in part or complete payment of loan to the creditor; (k) Institution of suits by debtors for taking account and for having amounts due from them determined; (l) Protection of debtors from molestation and intimidation; (m) Infringement of law to be made punishable with fine and imprisonment.

The Rural Credit Survey Report draws attention to the above and recommends for special consideration the following points:—

(i) The rates of interest in different States should be reviewed and revised in a realistic manner. The money-lender cannot be expected to charge rates lower than those of institutional agencies;

(ii) Administrative arrangements for the enforcement of the Act should be reviewed and adequate supervision ensured; and

(iii) A review of money-lending legislation in different States to make it cover all points.

Future of Money-lenders

The question often asked is "what part will the money-lenders play in the future evolution of rural credit in India?" The

Rural Credit Survey Report has examined this question in detail. It holds that the money-lender cannot be fitted into any integrated scheme of rural credit. The Report stresses need for concentration of all State efforts to develop co-operative agencies to provide credit. This will reduce the importance of the activities of the private money-lenders and the State will be able to exercise control on them with a realistic legislative framework.

Thus "once a healthy alternate agency offering vigorous competition to the money-lenders is built up, the money-lenders will play a more fruitful role in the development of rural economy under a more realistic system of State regulation."

Reserve Bank of India and Agricultural Finance

In an agricultural country, the Central Bank has a special responsibility for supplying credit facilities to agriculturists. With this end in view, the Reserve Bank of India set up a separate Agricultural Credit Department whose functions are: (i) To maintain an expert staff for the study of the various problems of agricultural crdit; (ii) to make its advice available to the Central Government, State Governments and Provincial Co-operative Banks in matters of promoting rural credit; and (iii) to finance agricultural operations and movement of crops through the provincial Co-operative Banks and other agencies in agricultural credit.

Considering that 90% of agricultural finance comes from the indigenous bankers and the village money-lenders the Reserve Bank put up a scheme in 1937 for linking up these bankers with itself. Sir George Schuster remarked in 1933: "Until the vast portion of India's banking and credit, which is represented by the indigenous bankers, is put into gear with the relatively small machine of modernised money market, with Reserve Bank as the central control, it will be impossible for the masses of the people who populate the country-side of India to get the full benefits of banking and credit facilities on reasonable terms, which a well organised banking system ought to give." But the indigenous bankers refused to accept the conditions laid down by the Reserve Bank for this 'gearing up'.

The Reserve Bank of India provides assistance by way of:

(i) Short-term loans to State co-operative banks for seasonal agricultural operations and marketing of crops at 2% below the Bank Rate;

(ii) Medium-term loans for specified agricultural purposes at 1½% below the Bank Rate;

(iii) Short-term loans to State co-operative banks for production and marketing of handloom production at 1½% below the Bank Rate; and

(iv) Loans to State governments from the National Agricultural Credit (Long-term Operations) Fund for

participation in the share capital of co-operative credit institutions at all levels.

The loans are made against specified securities, viz., Government Securities of 90 days' maturity, trustee securities, promissory notes of Provincial Co-operative Banks secured by warehouse receipts or by documents of title to goods pledged as security, etc. The Bank rediscounts bills of exchange or promissory notes maturing within 9 months (later raised to 15 months) and issued for seasonal agricultural finance and marketing of crops. Such bills, etc., must be endorsed by a scheduled bank or a Provincial Co-operative Bank. These are the arrangements for short-term credit.

As far as the long-term credit, the Reserve Bank takes part indirectly by subscribing to the debentures of land mortgage banks. The Reserve Bank made a special offer to subscribe up to a maximum of two-thirds of an issue of rural debentures from its National Agricultural (Long-term Operations) Fund. A scheme for the floatations of rural debentures by Central Land Mortgage Banks was drawn up by the Reserve Bank during 1957-58 to mobilise rural savings. Under the scheme, the Reserve Bank contributed in 1958-59 to the debentures issued by the Saurashtra and Orissa Central Land Mortgage Banks to the extent they were not taken over by public. The Reserve Bank's holdings of rural, ordinary and special debentures on March 31, 1963, amounted to Rs. 5.75 crores.

In early years, very little use was made of these facilities by the co-operative movement. The conditions on which the Reserve Bank was prepared to grant accommodation were rather difficult. The Reserve Bank's rigid attitude came in for a good deal of criticism. However, during recent years serious efforts were made by the Reserve Bank in the direction of improving rural credit facilities. From a passive role, the Reserve Bank has now come to play a very active and important role in providing financial accommodation to the Provincial Co-operative Banks. For this purpose the following are some of the steps that it has taken:

(i) The period of maturity of bills of exchange and promissory notes has been raised from 9 months to 15 months;

(ii) discounting of bills based on bona fide commercial transactions which was previously confined to scheduled banks has now been extended to co-operative banks also;

(iii) while previously all loans from the Bank had to be repaid by a fixed date (30th September) now they are allowed to run to their full periods;

(iv) credit limits, though used once, can be utilised throughout the year; and

(v) more expeditious disposal of loan applications.

Owing to the above steps, the assistance provided by the

Reserve Bank has shown a sharp increase. The short-term loans sanctioned in 1962-63 amounted to Rs. 163.94 crores as against the limits sanctioned of about Rs. 12 crores in 1951-52. The outstandings of these loans at the end of 1962-63 were Rs. 124.38 crores. The outstandings of medium-term loans on the same date were Rs. 10.56 crores as against nil in 1951-52.

Apart from the above measures regarding short-term and long-term credit, the Reserve Bank has also started since 1954 giving medium-term loans to the State Co-operative Banks. This was made possible by the amendment of the Reserve Bank Act in 1953. By virtue of this amendment, the Bank could lend up to a maximum of Rs. 5 crores for periods not less than 15 months and not exceeding 5 years. This amendment also enables the Bank to finance wider range of rural economic activities including production and marketing of agricultural and animal husbandry products and processing of agricultural goods where processing is necesary and preliminary to marketing. Under these provisions, the Reserve Bank has started giving loans for three years at 2% below the Bank Rate. The guarantee of a State Government serves as a security. The medium-term loans sanctioned by the Reserve Bank State Co-operative Banks rose from Rs. 1.57 crores in 1956-57 to 9.67 crores in 1961-62 but fell to Rs. 3.58 crores in 1962-63.

So far as research on rural credit problems is concerned, the Bank has really done commendable work. Besides, it has been giving useful advice to the Central Government, State Governments and Provincial Co-operative Banks on matters relating to rural finance such as debt legislation, organisation of land mortgage banks, etc. Under the auspices of the Bank, a comprehensive All-India Rural Credit Survey was conducted in 1952 whose report was published in 1954.

The Reserve Bank has also taken some other steps towards strengthening the rural credit structure of the country. It has set up a Department of Banking Development which helps in the development of co-operative banks of the central type.

Also, the Reserve Bank has started since 1952-53 a system of inspection, on a voluntary basis, of co-operative banks. The defects noted and suggestions for improvement were communicated in each case to the Registrar of Co-operative Societies. This is bound to improve their working.

In order to make well-trained and adequate staff available, the Reserve Bank has recently sponsored and subsidized the establishment of an All-India Centre for co-operative personnel at Poona.

Thus the Reserve Bank can no longer be blamed of apathy and indifference towards the problem of agricultural finance.

State Bank of India and Rural Credit

In pursuance of the recommendation of the Rural Credit Sur-

vey Committee the Imperial Bank of India was nationalised and started functioning as State Bank of India on July 1, 1955. One of the aims of this step was that the State Bank should play an important role in the extension and improvement of rural credit. Accordingly, the State Bank has been taking very keen interest in the field of agricultural credit.

The State Bank of India has helped rural credit in these ways: (i) It has provided general assistance in the development of rural credit; (ii) it has provided finance for land mortgage banks; (iii) it has given financial accommodation to marketing and processing co-operative societies; (iv) it has also provided assistance to the scheme of warehousing.

As for assistance to co-operative credit institutions, the State Bank gives loans and overdraft facilities against Government securities at concessional rate, i.e., ½% below the State Bank Advances Rate subject to a minimum of 3% per annum. The Co-operative institutions are also able to get advances on the repledge of goods at concessional rate, i.e., ½% below the usual rate. It also grants advances to State Co-operative Banks to enable them to finance their affiliated Co-operative Societies. The State Bank has also liberalised its remittance facilities to co-operative central financing agencies. This is in regard to short-term finance.

As for long-term finance, the State Bank assists central land mortgage banks in a number of ways. For instance, it subscribes to the debentures flooded by them from time to time. It thus helps them to finance land development schemes. The State Bank also grants advances against the security of such debentures. In this way it improves the marketability of such debentures. Moreover, the State Bank grants limited temporary financial accommodation to land mortgage banks to help them in their normal lending operations pending the floatation of debentures. The significant role that the State Bank has played in this connection is evident from the fact that its holdings of debentures of land mortgage banks rose from Rs. 5 lakhs in 1954 to Rs. 77 lakhs in 1959.

The State Bank gives financial assistance to co-operative marketing and processing societies in areas where there is no possibility of any central co-operative financing agency giving prompt and adequate accommodation at reasonable rates. Marketing societies are given advance against pledge of produce in order to enable them to wait for selling at favourable rates. Similarly it grants accommodation to processing co-operative societies such as sugar factories and ginning and pressing factories. The total credit limits sanctioned to marketing and processing societies other than sugar factories on April 30, 1960, amounted to Rs. 210 lakhs and to sugar factories Rs. 236 lakhs.

The warehousing schemes have also received assistance from the State Bank. It has tried to open branches where warehouses

have been set up by Central and State Warehousing Corporations. It charges concessional rates of interest on advances against warehouse receipts. Such advances have risen from Rs. 9.4 lakhs in 1958 to Rs. 197.96 lakhs in 1960.

The State Bank has thus made a significant entry into the field of agricultural finance. As it acquires more experience, this new source of rural finance will grow much more important.

Rural Credit Survey

For some time a feeling was growing that the things were not all well with our rural credit. In spite of half a century of co-operative effort, the institutional agencies of credit played only an insignificant part. The co-operatives supplied barely 3% of the total borrowings of the agriculturists and the Government an equally insignificant portion. The private agencies like the money-lenders and the traders still reigned supreme. But the potentialities of the co-operative movement were still unquestioned. What was needed was to create conditions congenial for its development and success. There was an urgent need for the re-organisation of rural credit.

Accordingly, a Committee of Direction of All-India Rural Credit Survey was appointed by the Reserve Bank of India in August 1951. The report of the Committee was published in December 1954. The Committee surveyed 600 villages in 75 districts all over the country and covered 1,27,343 representative families. A Rural Credit Follow-up Survey was made in 1957-58 and its report was released in 1960.

Its Main Findings. The Survey brought out the following facts:—

1. The village average of outstanding debt per family varied from Rs. 29 to Rs. 1,200. The district average showed some concentration in the range Rs. 100—Rs. 300 per family

2. As between the cultivators and the non-cultivators, the former were relatively more extensively indebted and for larger amounts than the latter.

3. The debt per indebted cultivating family varied from Rs. 140 in Hazaribagh (Bihar) to Rs. 2,100 in Bhatinda (Pepsu).

4. As a rule the burden of debt per acre increased as the number of acres cultivated by a family decreased.

5. More than 50% of the cultivating families borrowed loans during the year of the survey. The amount borrowed varied from Rs. 20 in Karapur (Orissa) to over 700 in Nainital (U P.).

6. Of the borrowings by the cultivators, 32% was for capital expenditure on the farm, about 15% for current expenditure on the farm, 47% nearly for family expenditure and the rest for non-farm business expenditure and other expenditure. Borrowings financed about 40% of the expenditure on marriages and other ceremonies and litigation, about 35% of expenditure on

death ceremonies, nearly 30% on medical items and 25% on repair and construction of houses and less than 10% on other items.

7. The gross expenditure on capital formation by rural families for the whole country is estimated at about Rs. 650 crores, formed of about 300 crores on capital expenditure in agriculture excluding purchase of land and livestock, about 200 crores on residential houses, etc., and Rs. 100 crores as investment in non-farm business.

8. The credit requirements of a cultivating family for certain specified items of capital investment in agriculture were from 2 to 6 times larger than the actual expenditure on them by the upper strata of cultivators and 3 to 27 times in case of lower strata.

9. As for the security for the loan, 50% of the surveyed families got loan against immovable property; of the rest about one-fourth personal security and most of the remaining did not specify the security.

10. As against their per family credit requirements, of about Rs. 1,300 by the upper strata and Rs. 800 by the lower strata of cultivators, the owned lands and buildings were of the value of about Rs. 7,000 and Rs. 2,000 for family of these two classes respectively.

11. Roughly one-half to two-thirds of the total funds lent to rural areas were probably derived from the urban areas.

12. Of the average borrowing of Rs. 210 of a cultivating family during the year, 3% was borrowed from Government, 3% from co-operatives, 14% from relations, 2% from landlords, 25% from agriculturist money-lenders, 45% from professional money-lenders, 6% from traders and less than 1% from commercial banks, and the remaining represented borrowings from other classes of creditors.

The survey led to the formulation of a number of specific recommendations by the Committee.

Integrated Scheme of Rural Credit

The Committee of Direction of the All-India Rural Credit Survey proposed an Integrated Scheme of Rural Credit. It is based on three fundamental principles:

1. State partnership in the co-operative movement at different levels,

2. Full co-ordination between credit and other economic activities; and

3. Administration through adequately trained and efficient personnel responsive to the needs of the rural people.

A very important departure from the past, which is envisaged for future, is that the State is entering into partnership with co-operative institutions at various levels. This partnership will

provide: (a) additional strength to co-operatives, (b) better guidance, and (c) greater financial assistance.

Main Features

The main features of the Integrated Scheme of Rural Credit recommended by the committee are as under:—

1. There should be State partnership, including financial partnership, in co-operative rural credit. In this way, such credit will not only be expanded and strengthened but also used for positive purpose of production and for the positive benefit of the rural producer.

2. There should be similar State partnership for the benefit of the rural producer, in a programme for the organisation of processing and marketing on a co-operative basis and for the development of storage and warehousing. Establishment of a **National Co-operative Department and Warehousing Board and All-India Warehousing Corporation and State Warehousing Companies**' was recommended.

3. A similar State partnership was recommended to carry out a programme on a co-operative basis for the organisation of other activities of the village including farming, irrigation, provision of seed and manure, transport, fisheries, dairying, livestock breeding and cottage industries.

4. There should be an integration of, and States' financial participation in, an important section of commercial banking. The purpose is to create a State partnered and country-wide banking institution (to be called the State Bank of India). This Bank may, among other things, be charged with the development of rural and co-operative banking. In particular, it would seek to provide facilities for quick and cheap remittance of money in areas hitherto neglected by Commercial Banks, but where without such facilities on development of rural or co-operative banking is possible.

5. A new type of personnel should be trained which is not only technically qualified but also has a rural bias in its sympathies and attitudes.

6. The extent of State partnership should be so regulated that it is possible for the primary societies, which form the base of co-operative structure, to become fully 'co-operative' within a measurable period, by the process of themselves replacing the State part of the share capital. At the higher levels of co-operative structure, the major partnership of the State should be retained until such time as may be required in the interests of the co-operative organised at the rural base.

7. The committee recommended the creation of several funds. Two funds were proposed under the Reserve Bank: (i) The National Agricultural Credit (Long-term Operations) Fund and (ii) The National Agricultural Credit (Stabilisation) Fund. The first Fund, viz., the National Agricultural Credit (Long-term

Operations) Fund is to be utilised by the Reserve Bank for giving long-term loans to the State Governments to enable them to participate in the share capital of the State co-operative banks, central co-operative banks, large-sized primary credit societies, central land mortgage banks, primary land mortgage banks, etc. The Fund may also be used by the Reserve Bank to give long-term accommodation (for periods exceeding 5 years) to land mortgage banks (i) by way of direct loans and (ii) by purchase of whole or part of 'social development debentures' of the land mortgage banks.

The second Fund, viz., the National Agricultural Credit (Stabilisation) Fund, is to be utilised for the purpose of granting medium-term loans to State co-operative banks, etc., to enable them to repay any of their short-term loans to the Reserve Bank when on account of famine, drought, etc., it is not possible for such loans to be repaid out of the borrowing institution's own resources.

Besides the above two funds, another fund, National Agricultural Credit (Relief and Guarantee) Fund, was proposed to be created under the Ministry of Food and Agriculture. A sum of Rs. 1 crore was to be credited to this fund annually. This fund may be used to give grants to the co-operative credit institutions through the State Governments concerned, for the purpose of writing off irrecoverable arrears where the Ministry is satisfied that such arrears have arisen from causes, such as widespread or chronic famines, beyond the control of the co-operative institutions concerned.

Two funds were proposed under the National Co-operative Development and Warehousing Board: (i) The National Co-operative Development Fund and (ii) National Warehousing Development Fund. Rs. 5 crores annually are to be divided between these two funds, besides an initial non-recurring contribution of Rs. 5 crores to the second Fund. The first of these Funds is utilised by the Board for granting loans, subsidies, etc., for development of storage, warehousing and distribution activities. The second is used for the development of the warehousing facilities.

8. The Reserve Bank is to continue to give short-term accommodation on the guarantee of the State Government through State co-operative banks. It is also to continue to give medium-term loans to State co-operative banks and through them to central co-operative banks and societies.

The Reserve Bank should also continue to give long-term accommodation to land mortgage banks through the normal purchase of marketable securities as a part of Bank's ordinary operations. In all these cases, both principal and interest should be guaranteed by the State Government.

9. 'Taccavi' and similar loans should be strictly limited to 'distress' finance to meet contingencies such as famine, security, etc.

10. A phased programme for the reorganisation of co-operative credit institutions at all levels should be drawn up by the State Governments in consultation with the Reserve Bank. The re-organisation should be on the basis of major State partnership. Such major State partnership should continue indefinitely at the apex and the district levels but should be for a limited period at the primary level.

11. There should be co-ordination between the short-term and long-term parts of the credit structure. State co-operative banks and central land mortgage banks should have a common administrative staff and all or some common directors.

12. The primary credit structure should be developed in the direction of large-sized societies with limited liability.

13. The short-term loans should, for production purpose, be related in amount to the estimated outlay on raising the crop and should be recovered from the proceeds of the sale. Loans should preferably be disbursed in kind.

The provision for consumption loan (e.g., for marriage) should be made out of a 'chit fund'. The membership of this fund may be wider than that of the primary credit society and may include, besides cultivators, agricultural labourers, artisans, etc.

14. The medium-term loans should also be provided by the short-term structure of the co-operative credit. The making of long-term loans should be the responsibility of land mortgage banks and such loans should be primarily for productive purposes.

15. Supervision of societies should be the function of the apex and central banks. Credit, and also general administration, should continue to be the responsibility of the State Government.

16. Vigorous steps should be taken to extend and develop co-operative marketing and processing societies at all levels. The organisation of such societies should be on the basis of major State partnership. A system of licensing of processing establishments should be introduced and co-operative societies should be given preference in the issue of licences.

17. Storage and warehousing facilities in smaller market-towns and in villages should be developed by the co-operative agency. In bigger towns, this should be the concern of the State Warehousing Companies and the All-India Warehousing Corporation.

18. The State Bank of India should pay special attention to the needs of co-operative institutions connected with credit, marketing and processing.

19. The Central Committee for Co-operative Training should be provided with larger funds by the Government of India and the Reserve Bank so that it may be able to enlarge the scope and extend the coverage of its training facilities.

To sum up. The main features of the integrated scheme of rural credit are:

(i) State partnership in co-operative institutions at all levels;

(ii) full co-ordination between credit and other allied economic activities;

(iii) development at the base of primary co-operative societies to make them economic units;

(iv) establishment of a network of warehousing organisations; and

(v) provision of adequate facilities for the training of co-operative personnel.

How far have these recommendations been implemented?

Most of these recommendations have already been implemented:

1. The Imperial Bank of India was nationalised and was changed into State Bank of India. It started functioning on July 1, 1955. The Bank was required, under statutory obligation, to open 400 branches within five years. This task has been accomplished.

2. The Reserve Bank of India Act was amended in 1955 to enable it to create two funds, viz., the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund The first Fund was set up in February 1956 with an initial contribution of Rs. 10 crores and this was to be augmented with an annual contribution of Rs. 5 crores. During 1961-62, the Reserve Bank made a further contribution of Rs. 10 crores raising the amount to the credit of the Fund to Rs. 50 crores (June 30, 1961). This Fund is to be used for: (a) grant of long-term loans to State Governments to enable them to contribute to the share capital of co-operative credit institutions, (b) provision of medium-term agricultural loans; (c) grant of long-term loans to central land mortgage banks; and (d) purchase of debentures of central land mortgage banks. In 1961-62, loans to the extent of Rs. 5.60 crores were sanctioned to 12 States for contribution to the share capital of co-operative credit institutions. A sum of Rs. 9.67 crores was sanctioned during 1961-62 to 13 State co-operative banks as medium-term financial accommodation.

The second Fund, viz., the National Agricultural Credit (Stabilisation) Fund, was set up with an initial allotment of Rs. 1 crore during 1955-56 and a further contribution of Rs. 1 crore was made in each year from 1956-57 onwards. The Fund can be drawn upon for giving medium-term loans and advances to the State co-operative banks to enable them to convert short-term credit into medium-term credit, wherever necessary owing to drought, famine or similar calamities.

3. The National Co-operative Development and Warehousing Board was constituted in September 1956. The Central Warehousing Corporation was set up in March 1957.

4. The Central Committee for Co-operative Training, which was jointly constituted by the Reserve Bank and the Government of India, has drawn up a comprehensive scheme of co-operative training covering all ranks of co-operative staff. Under this scheme, there is an All-India Co-operative Training Centre at Poona for the training of senior officers of the co-operative department and institutions. There are five Regional Training Centres for the training of intermediate grade personnel and eight institutions for the training of block level co-operative officers working in C.D. and N.E.S. Blocks.

5. The Reserve Bank announced that it would treat the debentures of land mortgage banks, where guaranteed by the State Governments, on par with Government securities for accommodation.

As a result of these as well as other steps taken so far, it is hoped that rural credit facilities will be considerably expanded, improved and diversified.

Thus in a measurable period of time sufficient finances will be available for agricultural development in India, thus filling a great lacuna in the rural economic policy of India.

Agricultural Refinance Corporation

Agricultural Refinance Corporation was established on July 1, 1963. It is well known that the development of the agricultural sector has been painfully slow. It is also realised that accelerated agricultural development is vital to rapid economic development in under-developed countries. The main cause which has hindered agricultural development in India is the paucity of long-term credit. Facilities for short-term and medium-term credit have expanded fairly rapidly but long-term credit facilities have not grown at the desired rate. During the last ten years (1953-1963), the number of central land mortgage banks increased from 5 to 18, and that of primary land mortgage banks from 280 to 533. But the growth has not been commensurate with the needs. Besides, these institutions give advances mainly for liquidation of old debts. But what was wanted was an institution which would make long-term advances for financing big agricultural projects which involve long waiting for return. Such projects are obviously beyond the capacity of land mortgage institutions to finance. Hence the setting up of Agricultural Refinance Corporation is both opportune and welcome.

The Corporation has an authorised capital of Rs. 25 crores but will make a start with Rs. 10 crores (Rs. 5 crores interest-free loan from the Government of India and Rs. 5 crores subscribed by the participating institutions, viz., the Reserve Bank of India, scheduled banks, co-operative banks, Life Insurance

Corporation, insurance and investment companies in specified proportions). No institution can be allotted more than 10% of the shares reserved for the class of institutions to which it belongs.

The Corporation will serve as a central refinancing agency for agricultural credit. Assistance from the Corporation will be available for reclamation and preparation of land, development of special crops, mechanised farming and development of animal husbandry, dairy farming, pisciculture, poultry farming, etc.

The main channel for routing financial assistance would be the existing banks, co-operative and others. While the central land mortgage banks would be the most important channel, but it is realised that promotion of agricultural development cannot be done appropriately unless the scheduled banks are also harnessed for the purpose. Hitherto the scheduled banks had kept away from meeting the financial needs of agriculture. But such aloofness can no longer be justified in the context of planned development of agriculture on progressive and profitable lines. It is hoped that the association of scheduled banks with the Corporation would lead to their giving finance for agricultural operations in the same way as for industry.

The setting up of the Agricultural Refinance Corporation has been truly described as a landmark in rural finance. It is the first institution in the country which has been established for specifically assisting these agricultural projects which involve immensely large investment and long period of waiting. The emphasis is on financing remunerative schemes, especially those breaking new ground or promoting growth in spheres that are potentially rich.

There is no doubt that the Corporation will fill a big gap in the sphere of rural credit in India.

CHAPTER XIV

Co-operation

Meaning

The essence of co-operation is that isolated and powerless individuals can, by combining with one another, achieve advantages available to the rich and the powerful so that they may advance not only materially but also morally. Through co-operation they hope to attain "the effective realisation of the higher and more prosperous standard of life which has been characterized as better business, better farming, and better living".

"The basis of association," says Strickland, "is (i) voluntary, and (ii) democratic; voluntary because those only enter it who feel the economic need at which it aims....; democratic, because those who feel a real need will be men of modest status, who, if only the honest are admitted, will not resent equality, will in fact meet most easily on an equal footing."[1]

Thus the outstanding characteristics of a co-operative society are: (a) it is voluntary, (b) it is democratic, and (c) the moral element in its aims is as important as the material.

Origin and Development in India

"The co-operative movement in India has had a history of more than half a century, during which it passed through several phases of expansion, stagnation, consolidation and revival."[2] Started at first with the avowed object of granting short-term loans to people of limited means, the movement now embraces all aspects of economic life of its members.

In the closing decades of the 19th century, India was faced with the problem of the growing rural debt. The Madras Gov-

1. Strickland—*Co-operation in India*, pp. 15-16.

2. Reserve Bank Review of the Co-operative Movement in India, 1954-56, p. 1.

ernment deputed Sir Frederick Nicholson to study the system. His report was published in 1895-97. About this time, Mr. Dupernex in the United Provinces, and Sir Edward Maclagan and Captain Crosthwaite in the Punjab were organizing credit societies which could be registered under the ordinary Company Law. The Famine Commission of 1901 strongly recommended the introduction of credit associations.

Accordingly the Co-operative Societies Act was passed in 1904. The object of the Act was "to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means." The societies were to be either rural or urban. Generally speaking, in the organization of rural societies the principles of Raiffeisen and in that of urban societies those of Schulze-Delitzsch (both pioneers of co-operation in Germany) were followed.

The principles of the Raiffeisen model are:—

(a) Ten or more persons can form a society. (b) No shares are issued; capital is secured by borrowing money on the joint responsibility of all the members. (c) The members have unlimited liability. (d) Each society is confined to a village, so that the members are expected to know one another's financial condition, and no person can become a member of more than one society. (e) There is no entrance fee. (f) The management is honorary, the only paid member being the secretary-trasurer. (g) Loans are granted for productive purposes only and on personal security. (h) No dividends are distributed. (i) On the dissolution of a society, the reserve funds are devoted to public or charitable purposes.

The principles of the Schulze-Delitzch model are:—

(a) Large membership drawn from a wide area; (b) the payment of large salaries to office-bearers; (c) the distribution of handsome dividends; (d) conducting general banking business; (e) charging entrance fees, and keeping out persons who possess no income; (f) the aim being more materialistic than humanitarian; and (g) limited liability.

Soon, however, certain defects were noticed in the working of the Act of 1904: (i) It only provided for credit societies; (ii) it did not provide for central agencies for supervision and supply of capital; and (iii) classification of societies into urban and rural societies was found to be unscientific and inconvenient.

A new Act, the Co-operative Societies Act, 1912, was, therefore, passed. The Act of 1912 removed the defects of the Act of 1904 as under.

(i) Non-credit forms of co-operation for purchase, sale, production, insurance, housing, etc., were recognized.

(ii) New organizations for supervision, audit and supply of capital were recognized, viz., (a) unions, consisting of primary

societies for control and audit, (b) central banks, and (c) provincial banks.

(iii) Instead of the old distinction between rural and urban societies, a more scientific distinction was made between those with limited liability and those with unlimited liability. The liability of a society of which the members were registered societies, was to be limited. Societies which aimed at provision of credit and the majority of whose members were cultivators, were to have unlimited liability. The question of liability in other societies was left to the option of the members.

The Act of 1912 stimulated considerably the growth of the movement. Maclagan Committee was appointed to review the progress made. The Committee made useful recommendations for future development. Under the Reforms of 1919, Co-operation became a provincial transferred subject and the movement took rapid strides under the zealous guidance of the new ministers. But the movement seemed to outrun its own inherent strength. "The important rule that 'the progress of any organisation should be in proportion to the abilities of those who are going to administer it'," had been ignored. The followers of Nicholson, anxious to spread the movement, had vigorously attempted to push Raiffeisenism into the countryside without, as Nicholson had exhorted, endeavouring to find enough Raiffeisens first.

During the Great Economic Depression of 1929-35, the co-operative movement received a serious set-back. "With the drying up of productive outlets, assets had become frozen, and with the repayments coming in sluggishly and overdues rapidly mounting up, many central financing institutions came near to virtual extinction."

But the war and the post-war years have witnessed a considerable quickening of the movement in all directions. Co-operation came to play an increasingly important role in food production and distribution, marketing, housing, land colonisation and settlement, organisation of small-scale and cottage industries and the schemes of rural rehabilitation, etc.

The position regarding overdues, which was so disquieting, considerably improved, the overdues having gone down from Rs. 11.2 crores in 1938-39 to Rs. 6.2 crores in 1945-46. The number of societies, membership and deposits showed a remarkable increase. The working capital, however, did not increase much owing to decline in the amount of loans taken from provincial and central banks. The reason for this decline seems to be that recoveries generally exceeded the amount of fresh advances. High agricultural prices improved the repaying capacity of the borrower. Hence the liquefaction of frozen and irrecoverable assets placed the societies in a definitely better financial position.

The following table indicates the progress of the movement:

End of June	*All Societies*		*Membership of Primary Societies (in lakhs)*
	No. (in thousands)	*Working Capital (Rs. in crores)*	
1910	2	1	2
1920	28	15	11
1930	94	75	37
1940	1,17	1,05	51
1951	1,81	2,76	1,37
1956	2,40	4,69	1,76
1957	2,45	5,67	1,94
1958	2,57	6,96	2,44
1959	2,84	8,27	2,48
1960	3,13	0,83	3,03
1961	3,32	13,12	3,42
1962	3,42	15,34	3,78

"These figures show that, despite its inadequacy in relation to the effort required to solve the problems it attempted to, and small progress made in individual spheres, the movement as a whole constitutes significant force in economic and social life of the country. Its progress in recent years, although not spectacular, has been well-sustained." Nearly 38% of the population has been brought into the fold of the movement.

It must, however, be pointed out that the owned capital of the societies is only one-third of the working capital which shows that the element of thrift in the movement is small and dependence on outside finance disproportionately large. One of the Registrars in his report said that, "in respect of thrift and credit societies, thrift had always remained a sleeping partner." "Indeed the financial distributary system of co-operative credit in this country", says the Reserve Bank's Review, "is largely a channel for the flow of funds from the well-to-do towns-people through the Provincial and Central Banks to the primary societies and thence to the numerous and scattered individual members of societies."[1]

1. Review of the Co-operative Movement, 1939-46, *op. cit.*, p. 9.

The following figures represent the position of co-operation at the end of 1961-62:—

Total number of societies	...	341,841
Total membership (lakhs)	...	378.35
Working capital (Rs. crores)	...	1534.78
Primary agricultural credit societies (number)	...	2,15,681
Primary non-agricultural credit societies (number)	...	12,477
Non-credit societies (number)	...	1,01,557

Nearly 42% of the population was served by co-operation in 1960-61. The aim is to bring within its fold all rural families by the end of the Third Plan.

There are broadly speaking four types of societies: (a) Agricultural Credit Societies, (b) Agricultural Non-Credit Societies, (c) Non-Agricultural Credit Societies, and (d) Non-Agricultural Non-Credit Societies.

Agricultural Credit Societies

A primary agricultural credit society can be formed by ten or more persons (maximum 100) by applying for registration to the Registrar of Co-operative Societies. This area of operation is usually a village. This ensures mutual knowledge and supervision on the part of the members. The liability of members is unlimited so as to inspire confidence in the minds of the outsiders and to stimulate mutual control and supervision among the members. The working capital is derived from entrance fees, deposits, share capital, if any, of the members. Capital is also secured from outside by means of loans and deposit from Government, from other societies, and from Central and Provincial Banks. The ratio of deposits to working capital is nearly 5%. This shows utter dependence on the external sources of finance.

Loans are given to members for: (i) productive purpose like (a) short-term credit for current agricultural operations, (b) long-term credit for permanent improvement of land; (ii) for unproductive purposes in moderate amounts, e.g., for marriages, etc.; and (iii) for redemption of old debts. Loans are usually given on personal security and sometimes on security of property. Repayment is allowed in easy instalments.

Every society is required by law to build up a reserve fund to which all profits are credited in the case of societies with no share capital. In the case of others, 15 per cent of profit is carried to this fund. Ten per cent of the profit, if the Registrar allows, can be spent for charitable purposes. The societies enjoy certain privileges like exemption from stamp duty, registration fee, and income-tax. Their shares cannot be attached. They have a prior claim over other creditors.

The management is in the hands of two bodies, i.e., the General Committee consisting of all the members and a Managing Committee elected by the general body. The current business is disposed of by the Managing Committee, e.g., granting

loans, admitting new members, etc. The General Committee elects the Managing Committee, appoints the paid secretary, amends by-laws, etc.

The co-operative movement has been essentially a credit movement from its very inception. Although in recent years there has been considerable diversification of the functions of the credit societies, yet the credit side of the movement still continues to occupy a predominant position. The primary agricultural credit societies constitute numerically the most important single class of co-operative institutions in the country. They form 66% of the total number of primary societies and 80% of the total number of the agricultural societies. This shows that short and medium-term finance is still the pivotal need of the agriculturists.

At the end of June 1962, the primary agricultural credit societies numbered 2,15,081 with a working capital exceeding Rs. 355 crores nearly and a membership of 195 lakhs. They advanced loans amounting to nearly Rs. 203 lakhs. Their deposits stood at Rs. 12 crores.

Agricultural Non-credit Societies

These societies are concerned with agricultural operations such as purchase of seed, manure, implements and machinery, provision of minor irrigation facilities, consolidation of holdings, co-operative farming and co-operative marketing. They also include societies for social services, housing, insurance, better farming, land reclamation, colonisation, crop protection, cattle breeding, etc.

Non-credit societies have not developed to the same extent as credit societies. Their slow development has been due to a number of causes: (i) The Act of 1904 made no provision for such societies and it was only after the Act of 1912 that such societies began to be formed. (ii) In other countries (e.g., Europe and America) also, the non-credit movement developed later and much slower than the credit movement, due to greater training and experience being necessary for running them. (iii) The industrial backwardness of India and the illiteracy of people also stood in the way. (iv) Finally, credit societies in many cases also took up non-credit functions, such as purchase of implements, seeds, manures, etc.

Single vs. Multipurpose Societies

At one time there was controversy whether there should be one society for tackling every separate problem of the cultivator—credit, sale and purchase, improved methods, implements, etc.,—or there should be a single society which should take charge of all these problems. So far the typical society in India has been a single-purpose society though some credit societies have also performed other functions like introduction of better

seed, implements, etc., and the better living societies also tackle the village problem in its various aspects. The question is whether the multi-purpose society should be made the typical society.

The Reserve Bank of India has strongly advocated the cause of such societies. How the new society will come about and how it will perform its functions, according to the Reserve Bank, is shown in the following extract from one of its publications: "Starting with credit for current needs, a society may get the old debts of its good members liquidated through a land mortgage bank, introduce better business and better monetary return by inducing its members to sell their produce co-operatively, ensure their growing of the improved varieties of crops by purchasing seeds for them, save on purchases by arranging for the purchase of their other needs jointly and at profitable rates on an indent system without incurring any risk or liability, save litigation expenses by effecting arbitration, improve the outturn of crops by consolidation of holdings, supply of pure seeds and improved implements, supplement the income of its members by inducing them to take to subsidiary industries, introduce better living measures by adopting by-laws by common consent which will curtail ceremonial expenditure and remove insanitary habits, provide medical relief and so on."

Many arguments are put forward for the multi-purpose society: Greater loyalty and sustained interest of members; freedom from the evils of cash economy; wider area of operation, hence more economical and efficient management; its utility in the rural uplift movement and the promotion of subsidiary industries connected with agriculture. It can serve as a good agency for the rehabilitation of rural life as a whole; it will have a comprehensive understanding of all the various problems that the agriculturist has to face. In any case, a proper co-ordination of the various co-operative activities is necessary even if there are separate societies for each purpose. "Multi-purpose" societies can do it best. Further, if different branches of business meet with varying success, "what is lost on the swings will be made up on the round-abouts". Only a multi-purpose society can displace the money-lender completely. Unless credit is linked with marketing, the financial investments of the illiterate and ignorant peasant cannot be effectively safeguarded. There is also the paucity of trained personnel for running separate institutions. Besides, a small society, with a restricted range of operations, cannot withstand even a few setbacks.

On the other hand, its opponents have raised a number of objections against it: That the business ability of the villager may be overstrained, there is the danger of its becoming cumbersome in mechanism and also unintelligible to simpler members; and that failure of one line of business may affect other lines. Then there are disadvantages due to the large area of operations. It has been held that on account of members being unable to secure the necessary mutual knowledge and trust, an essential purpose

of the co-operative movement will be defeated. Moreover, a small village unit is regarded necessary as a training ground. Then the limited liability of such a society is also objected to.

A Reserve Bank Review observes: "The multi-purpose idea does not seem to have been successfully translated into practice to an appreciable extent in any State. Most of these societies were doing only credit work, the non-credit activities being confined only to the distribution of commodities. The main reason of their inability to cover a wide range of activities efficiently seems to be inadequate resources. lack of trained personnel resulting in inefficient management and lack of interest among the members."[1] Thus they were multi-purpose in name only. Where they tried to be multi-purpose, combination of banking and trading in one institution, inefficiently staffed, operating on slender resources and functioning in an economy every other part of which was aimated by the profit motive brought inevitable disaster in its train.

Multi-purposes societies are now called service co-operatives. Since the passing of Nagpur resolution in 1959, resolute efforts are being made to organise Service Co-operatives. By the end of the Second Plan, 67,000 service co-operatives were likely to come into existence. To give stimulus to the organisation of such societies, State Governments have either framed model byelaws or amended the existing ones. Some States have taken up the task of reorientating and educating the field staff and detailed instructions and a good deal of literature have been issued to them to overcome difficulties in the way of formation of service co-operatives. It is on the success of service co-operatives that the re-organisation of Indian agriculture on the right lines depends. The Reserve Bank Review, however, has recently rejected the idea of service co-operatives on the ground of their being unworkable.

Non-Agricultural Co-operation

Non-agricultural co-operation, too, has two aspects, viz., the credit and the non-credit.

(i) **Non-agricultural Credit Societies.** The credit societies are generally formed in the urban areas and are on the Schulze Delitzsch model—large membership, limited liability, high dividends, etc.

These societies have taken different forms. In Bombay and Madras, there are Peoples' Banks meant specially for the benefit of the middle classes. There are thrift and life insurance societies in Punjab, Bombay and Madras. Societies for the employees of large firms and government departments have made good progress in Bombay, Bengal and Madras. Their primary purpose is to promote thrift, though they also grant loans to members at reasonable rates. There is, however, a tendency for the mem-

1. Reserve Bank Review on Co-operative Movement, 1954-56, p. 22.

bers to borrow up to the maximum limit almost continuously. There are communal societies for the uplift of backward classes. Artisans' societies of carpenters, shoe-makers, etc., on the Raiffeisen model exist mostly in Bombay. There are also societies for factory workers providing credit, promoting thrift, and carrying on social and educational activities among mill hands. At the end of June 1962 there were 12,286 urban credit societies forming 3.5% of the total number of societies with 49,54 lakh members covering 29% of the urban population. Unlike agricultural societies these societies do not depend mainly on borrowing from the Central banks, but rely more on deposits. Since they provide various types of banking facilities, they can attract sizeable deposits. The Study Group on credit co-operatives has recommended that at the end of the Fourth Plan the non-agricultural credit societies should cover 50% of the urban population.

(ii) **Non-credit Societies.** These societies have taken the following form:

Consumers' Societies. Up to World War II this form of co-operation did not make much headway. The Reserve Bank Review (1939-46) attributed the failure of the consumers' societies to the low margin of profits, high administrative costs, inadequacy of capital, lack of trained, capable, and honest staff, disloyalty of members, insistence on cash payments, absence of central organizations which could purchase goods directly from the producers for their stores, etc. Other difficulties are strong outside competition and absence of a large class of people with fixed periodical income.

World War II, however, created conditions which were favourable for the development of the consumers' societies. Prevalence of skyrocketing prices, profiteering and black-marketing compelled the people to seek the assistance of the co-operative movement for the supply of essential requirements. Ability to pay cash on account of inflation and the official control on prices removed the other obstacles from the way of the development of co-operative stores. The Government also encouraged the societies by granting licences and allotting quotas of controlled articles as they were regarded more efficient and reliable agencies for the distribution of these articles. Abolition of rationing and control in 1951-52 gave consumers' co-operatives a setback. However, the increases in the prices of foodgrains and scarcity of sugar in 1958 led to Government control and arrangements for the sale of these commodities through fair price shops. The consumers stores were preferred to run the fair price shops. This gave a fillip to the progress of consumers stores. Thus the downward trend was arrested.

At the end of June 1962, there were 7,266 primary stores with 13,95,334 members and Rs. 981.93 lakhs working capital and 32 wholesale stores with 4,642 members and Rs. 28.18 lakhs working capital.

These co-operatives have made much progress in Madras where the movement has penetrated into rural areas and wholesale and central stores have been organized in urban centres. Assam, Bombay, Mysore and Travancore also made good progress.

It is necessary to take steps to consolidate this progress. Among the steps that can be taken to strengthen consumers' societies may be mentioned (i) increase of share capital, (ii) building up of ample reserve funds, (iii) increase of membership, (iv) closer link-up between the primary and wholesale stores, (v) diversification of lines of trade. In India where the people are poor and need good articles at fair prices but where shopkeepers are unscrupulous, consumers' co-operation has a great scope.

Industrial Co-operation. One of the means for the resuscitation of the small-scale and cottage industries is to organize them on co-operative basis. Since 1935 when the Government of India inaugurated a system of annual grants in aid of cottage industries, a great fillip was given to the formation of industrial co-operative societies of which the weavers' societies were the most important. Other societies have been formed by tanners, smiths, potters, oil-pressers, bee keepers, wood workers, etc. Beside these, milk supply societies and unions are functioning in several States but their development in Bengal, Madras and U P. is specially noteworthy. There are societies relating to insurance, labour contract, and transport. In Maharashtra and Gujarat, State Industrial Co-operative Associations are developing and co-ordinating the activities of District Industrial Co-operative Associations. Andhra and Madras are leading in handloom societies. The industrial co-operatives registered a rapid progress during the decade 1951-1961, their working capital increasing seven times, their number going up from 7,101 to 32,266.

Other forms of such societies are: Sugar factories, cotton ginning and pressing societies, weavers' societies, spinning mills, other industrial societies, housing societies, insurance societies, etc.

Central Co-operative Societies

So far we have been concerned only with primary societies. Now we come to the secondary societies which are formed to organize, supervise, and finance the primary societies. These are Unions, Central Banks, and Provincial Banks.

Membership of the Union is open only to societies, but in the case of the Central Banks and the Provincial Banks the members may be individuals as well as societies.

Unions

Unions may be of three kinds:

(a) Guaranteeing Unions (as in Bombay).

(b) Supervising Unions (as in Madras and Bombay).

(c) Banking Unions (as in the Punjab).

The Unions are federations of societies within a certain area, managed by a committee representing the member-societies. Guaranteeing unions guarantee loans given by the central banks to the member societies. The unions perform the function of supervision of primaries and also serve as links between them and the central financing institutions.

Central Co-operative Banks. The central banks have been organised since the passing of the Co-operative Societies Act, 1912, to finance the primary societies, and to act as their balancing centres. Such banks made it possible to draw capital from a larger field for the benefit of primary societies. They also help in adjusting and balancing the excesses and deficiencies of working capital of primary societies, within the areas of their jurisdiction. Besides financing the societies, they do other banking business like accepting deposits, collecting bills, cheques, etc. In some States, they also advance loans to individuals against real property.

Central Banks may be mixed or pure. Membership of the mixed central banks is open to individuals as well as to societies, but the pure type is a truly federal central bank, and admits only societies as members. The mixed type is more suitable to Indian conditions at present, but the pure type should be the ideal. Pure type banks are found in the Punjab and Bengal and are generally called Banking Unions.

In 1961-62 there were 387 central banks in the country, with a working capital of Rs. 352.65 crores and membership of 3,95.600. The number of these banks has been falling in recent years due to rationalisation.

The central co-operative banks, in many States, are small, uneconomic, weak, and financially unsuitable; their own deposits are insufficient, their borrowing rate is high and they are unable to grant adequate finance to societies at reasonable rates. The Reserve Bank is looking into these defects with a view to remedying them. As recommended by the Standing Advisory Committee on Agricultural Credit, the process of amalgamation and reorganisation of central banks with the object of having one strong central bank for a district has been taken up as a phased programme in recent years. As a result, the number of such banks came down from 499 in 1953-54, to 418 at the end of 1957-58 and to 387 in 1961-62, but their share capital increased by 80%. The average share capital per bank stood at Rs. 7.87 lakhs on June 30, 1960, as against Rs. 4.32 lakhs on June 30, 1958, and Rs. 0.71 lakhs 10 years earlier. The bulk of the share capital (67%) is held by affiliated societies which should be considered a satisfactory features. Roughly one-fourth of the share capital represented State contribution. Their owned funds were nearly 20% of their working capital. Out of the 400 central banks in the country in 1959-60 as many as 97 banks had not yet reached the level of Rs. 3 lakhs per bank which is the desirable minimum standard of owned capital recommended by the Standing Advi-

sory Committee on Agricultural Credit. The position of overdues continued to be unsatisfactory.

State Co-operative Banks

They are apex banks which finance, co-ordinate and control the working of the central banks in each State. They serve as clearing houses of the excesses and deficiencies of the working capital of central banks. They serve, moreover, as a link between the general money market and the co-operative primary societies in the villages. Generally speaking, the apex bank does not deal directly with primary societies but through central banks, except in areas where central banks have not been established. Their financial position is, on the whole, much sounder than that of the central banks.

The main features of the working of State co-operative banks in recent years are: increase in working capital due to heavy inflow of deposits, stationary nature of outstanding loans due to satisfactory recoveries and investment of swollen surpluses in Government and approved securities. Besides their normal banking activities, they have also taken interest in other co-operative activities, such as linking of various co-operative organisations together and financing the supply and distribution of foodstuffs and other necessaries to combat blackmarket operations. It is suggested that with their considerably strengthened financial position, the provincial banks should now explore other co-operative avenues instead of venturing into commercial banking too far.

In 1959-60 owned funds of the State Co-operative Banks formed only 11.3%. As the Committee of Direction of the All-India Rural Credit Survey has indicated, "From the point of view of sound co-operative banking this is an inadequacy which needs to be rectified; it also stands in the way of larger borrowing programme." A feature of all new State Co-operative banks is that there is a substantial State participation in the share capital. As recommended by the Rural Credit Survey Committee, the State co-operative banks, central co-operative banks and wherever feasible, large-sized societies formed "Agricultural Credit Stabilisation Fund" for the purpose of conversion of short-term advances into medium-term loans in circumstances when the repayment of the former becomes difficult and would result in serious dislocation to the credit structure.

At the end of 1961-62, there were 21 State Co-operative Banks with a membership of 30,462 and working capital of about 256.09 crores nearly. They advanced loans amounting to Rs. 256.29 crores and the outstanding overdues came down from 10.6% in 1955-56 to 4.1% in 1961-62.

Long-term Credit and Land Mortgage Banks

The agriculturist requires long-term credit principally to meet two needs, i.e., for settlement of old debts, and for making

land improvements. There is no doubt that the Government gives loans for land improvements under the Land Improvements Loans Act, 1883, but such loans are inadequate. Moreover, this Act does not provide for loans for settlement of old debts. A co-operative society, too, cannot provide long-term credit. Its resources are limited and cannot be locked up for long periods. Hence the need for establishment of Land Mortgage Banks.

A Land Mortgage Bank is an institution which gives long-term loans on the security of land mortgage with it. Such a bank may be organized as a co-operative bank, a non-co-operative bank, or a quasi-co-operative bank—the last combining the features of a co-operative and commercial institution. Most of the Indian banks are quasi-co-operative. The co-operative type is the ideal, but in order to attract business talent and larger amounts of capital from bigger capitalists, non-borrowing persons are allowed to hold shares and the principle of limited liability is introduced.

When any member of village land mortgage society applies for a loan, he is required to furnish papers regarding the value, etc., of land that he wants to offer as security. In Madras and Bombay States the primary society forwards the application with its own remarks to the Central Land Mortgage Bank. An officer is sent to inspect the land and make a report about its value. If the officer recommends the loan, the Central Land Mortgage Bank provides the necessary funds which the village society hands over to the applicant, of course at a little higher rate of interest than that at which the village society has obtained it from the Central Land Mortgage Bank. Valuation of land is effected by trained officials lent by the Government. The loans require the previous sanction of the Registrar.

The village land mortgage society enjoys a number of concessions and privileges. It is charged only half the ordinary fee for registration of documents. Village maps, settlement registers, etc., are also supplied free to it. Besides, the Government maintains a staff of officials to help the primary societies in the work of scrutinizing the loan applications, in assessing the value of the mortgaged property and in supervising their work in general. The land mortgage banks have been given summary powers for the speedy recovery of arrears from the defaulters through the attachment and sale of their property without the intervention of the law courts.

The State can ensure the success of land mortgage banks in many ways: by giving guarantees for the payment of principal and interest on debentures, by purchasing a portion of debentures, by granting special facilities and privileges similar to those enjoyed by the co-operative societies, etc.

The credit for the establishment of the first co-operative land mortgage bank goes to the Punjab, where such a bank was established in 1920 in Jhang (Pakistan). But it did not succeed.

A real beginning in land mortgage banking in India was made in 1929 with the establishment of Land Mortgage Bank in Madras. A central institution of this type was established in Bombay in 1935. Madras still holds the place of pride with 119 land mortgage banks. The Reserve Bank Review (1939-46) thus summed up the position: "In spite of its vast agricultural population, India has not had a successful land mortgage banking structure. The land mortgage bank movement has failed at the place of its birth, the Punjab. It has either failed or remained in a moribund condition in several other provinces like the C.P. and Berar, Ajmer, Orissa, the U.P. and Bengal. The only province in India which has made a mark in land mortgage banking is Madras." The position, however, is now improving. The amount of long-term credit provided by the land mortgage banks in India is only negligible proportion of the finance required by the cultivators.

"The success of a land mortgage bank," says the Reserve Bank Review, "depends, to a considerable extent, on accurate assessment of the value of the land offered as security and the annual repaying capacity, adjustment of loans and the terms of repayment thereto and the recovery of the instalments punctually."[1]

In recent years, the agriculturists have experienced a measure of prosperity, and there have been even advance repayments of debts. Further, the Debt Conciliation Boards, by scaling down the debt and providing for easy instalments of repayment. have reduced the need for borrowing. Hence the land mortgage banks, which have so far confined their activities to debt redemption, do not seem to have any bright future.

It is necessary, therefore, that like land mortgage banks in other countries, they must now assist the development of agriculture in all its aspects. They would come forward to finance schemes connected with improvement of land, provision of irrigation, fencing, transport and drainage facilities, construction of buildings for agricultural operations, and storage of agricultural produce, purchase of farms, agricultural equipment, machinery, cattle, etc.

In the 'barani' areas, land mortgage banks have not developed due to uncertainty of crops and therefore uncertainty about repayment. The difficulty can be overcome if the Government advances funds to the land mortgage banks in the years of drought. Further, where land records do not exist, the Government should take steps to prepare them and make them available to the land mortgage banks.

Another cause of their limited success is the delay in the disposal of loan applications. Useless formalities and unnecessary stages through which an application has to pass should be eliminated.

1. Reserve Bank Review, *op. cit.*, p. [illegible].

The land mortgage banks should specially cater for the needs of the small owners and not merely big landlords as they have been doing so far.

It is also necessary to bring about a close co-ordination between the land mortgage banks and the various Government departments. Anything which helps the agriculturist will give a fillip to land mortgage banks. The various departments can put forward schemes of improvement for which the land mortgage banks should be prepared to lend.

If these suggestions are carried out, land mortgage banking is bound to go forward.

In 1961-62, there were 17 Central Land Mortgage Banks with a working capital of Rs. 61.70 crores. Loans advanced by them amounted to Rs. 14.75 crores. There were 526 primary land mortgage banks scattered in the various States with a membership of 8.52 lakhs. Their working capital was Rs. 38.31 crores and loans advanced by them amounted to Rs. 12.59 crores.

Achievements of Co-operation

The co-operative movement has been subjected to the searchlight of criticism by various writers, committees and commissions. The achievements of the movement and its possibilities have obtained high praise on the one hand; and on the other, the movement has been regarded by some writers as an utter failure to be liquidated at the earliest moment.

The gains from the movement have been manifold—**material or economic; moral and educative and social.** Most of the development of the movement has taken place in the field of rural credit. There have been obvious gains in this respect. Rural credit has been cheapened directly as well as indirectly; directly because the co-operatives charge comparatively lower rates of interest; and indirectly in the sense that owing to the mere presence of an alternative agency of credit, the money-lender's monopoly has been broken. He has therefore begun to charge lower rates of interest. Thus the hold of the 'sahukar' has been greatly loosened.

Further, the habits of thrift, saving and investment have also been developed among agriculturists. Money that would have been otherwise uselessly hoarded has been gradually attracted as deposits.

The material gains from the non-credit part of co-operation have been still better.

The movement has also been productive of very valuable, though less obvious, moral, social and educative gains. Sir M. L. Darling thus summed up the moral advantages of the movement: "Litigation and extravagance, drunkenness and gambling are all at a discount in a good co-operative society, and in their

place will be found industry, self-reliance, straight dealing, education, thrift, self-help and mutual help."

The membership of a good co-operative society has proved to be quite educative. A sense of responsibility as well as organising capacity are developed among the members especially among those who are elected office-holders. Since entries have to be made in registers, the members have to be literate. Thus the membership of the societies gives an impetus to adult education.

There are some societies which render direct social service, e.g., better living, village development, sanitation and health co-operatives. These societies have helped towards social improvements and many social evils have been removed through them. Indirectly also, co-operative societies have tended to weaken the hold of many undesirable social customs and habits. Since the liability of members is unlimited, every member keeps a watchful eye on the others lest they should spend recklessly on social ceremonies, drinking, gambling, etc.

The achievements of the movement can be summed up thus:

(i) that it has led to all-round reduction in the rates of interest in the rural areas;

(ii) that it has encouraged the habit of saving and investment;

(iii) that it has led to a decrease in consumption borrowing;

(iv) that it has contributed to a better morality and an independence of outlook among the cultivators; and

(v) finally, it has created an increasing interest in rural matters in the minds of urban capitalists and workers.

To this the critics of the movement reply that many of the above results are qualitative and hence difficult to measure, and that, even if such results have been achieved, they are associated only with the best societies, the number of which is not large. On the other hand, they emphasize the fact that the co-operative movement in India has been almost exclusively occupied with the problem of rural credit, and even in that field its achievements are not very remarkable. Even an official body like the Central Banking Enquiry Committee had to admit that "there is very little evidence about the reduction of total indebtedness through the agency of the co-operative credit societies, for they are not in a position to finance the agriculturists adequately for the discharge of old debts." The various Provincial Banking Enquiry Committees also noted that only a small percentage of the current needs of agriculture were supplied by co-operative societies. The movement has touched only a fraction of the total population of India, 42% in 1961-62. "All that has been done amounts only to a scratching of the surface."—Sir M. Visvesvaraya.

The criticism contains a substantial element of truth. But considering the limitation under which the movement has deve-

loped in this country, it must be admitted that it has made remarkable progress and has resulted in a lasting benefit to the Indian peasantry. Owing to the cheapness of credit that it has made available, it has resulted in savings for the agriculturists which are estimated at about one crore of rupees. It has restricted debts by establishing a system of controlled credit and has weakened the vicious system of money-lending that used to prey upon the ignorance of the peasant. The non-credit side of the movement is also receiving increasing attention. The movement has conferred considerable moral and material benefit on the rural classes.

Causes of Slow Progress

Except for the recent rapid growth under the stimulus of vigorous Government support and of the high prices of agricultural commodities ruling for the last 20 years since the outbreak of World War II, the progress of the Co-operative Movement has been very unsatisfactory. The average number of members per agricultural Credit Society in 1959-60 was 71 and the working capital per society a little over Rs. 11,000. The share capital per society was as low as Rs. 2,312 while the share capital per member amounted to only Rs. 32. Deposits per society were Rs. 585, while per member they amounted to just Rs 9. It is clear that the agricultural Co-operative Credit Societies have not contributed much in the way of savings to the resources of the movement. The societies have functioned mainly as institutions through which assistance to farmers from outside has been channelled. Broadly speaking, two sets of factors and causes have operated to the detriment of the Movement. These may be called the **Adverse External Circumstances and Internal Defects.**

Difficulties. Among the hampering causes outside the Movement, the first place may be given to the colossal **ignorance and illiteracy** of the masses in India. They do not clearly understand the meaning and full possibilities of the co-operative principle. To them a co-operative society is nothing more than merely a cheap money-lender. Thus the very urge for the development of the Movement is lacking.

In the absence of this urge, the pace has naturally to be very slow. But the Government realizing its potentialities has come out with its own initiative and effort. The result has been an **excessive Government control** which is not conducive to the healthy development of the Movement.

There has been opposition from vested interests, viz., the money-lending class, which has been doing everything possible to sabotage its growth.

The dependence of agriculture upon **climate conditions** is a difficulty which the Co-operative Societies cannot get over unless they build up sufficient reserves to carry them through several bad seasons, if necessary.

Weakened popular morale has been claimed as still another handicap of the movement.

The severe economic **depression** which started in 1929 caught the Movement almost unawares. It not only brought the Movement to a standstill but, in fact, resulted in much disillusionment and despair, which were overcome only after the boom conditions created by World War II.

Internal Drawbacks. Apart from the difficulties and adverse circumstances against which the Movement has had to contend, the blame may very largely be put on the manner in which the Movement itself has been conducted and has grown.

1. **To begin with**, there has on the whole been **too much emphasis on the credit side of co-operation.** But so long as the business of farming is not made profitable with the help of other types of co-operation like marketing, purchase, etc., mere credit co-operation by itself has not much chance of succeeding. This fundamental defect in the very nature of co-operation in India has now been widely realized. **The All-India Rural Crédit Survey** Report has therefore recommended the **integrated scheme of rural credit** in place of merely credit approach.

2. The size of the primary units has, for the most part, been very small, the area of their operations very limited, the liability unlimited and too much has been expected from honorary workers. All this was bound to react very unfavourably on the successful working of the societies.

3. The **management** of most of the societies has often been in the hands of **ignorant, ill-trained office-holders** who were unfit for the work entrusted to them. Accordingly in the audit classification of primary agricultural credit societies, the bulk of them continue to belong to 'C' and 'D' classes, i.e., with very unsatisfactory working in several States. In U.P., as many as 99.35% of them belonged to this category in 1956-57. This proportion was quite high in several other States as well (e.g., M.P. 92%, Orissa 81%, Bihar 80% and West Bengal 74%). The mortality rate among primary societies is also quite high.

4. **Party spirit and strife** have been the bane of many a society. Either such a society will not do much work or there would be favouritism and nepotism in the grant of loans, thus restricting the benefits to a few favoured members. Communalism is another factor eating into the vitals of the movement.

5. Till favourable conditions were created by high prices of agricultural commodities during the last twenty years, a very disquieting feature of most societies had been in respect of their **excessive overdues.** At the end of 1959-60, over-dues formed 21% of the total loans outstanding of the agricultural credit societies in the country as a whole while in some States the percentages were very much higher (e.g., 54% in Bihar, 48% in West Bengal and 31% in Mysore). **Large loans have not unoften**

been given for unproductive purposes to members who may have concealed their old debts. Such loans could not, therefore, be repaid punctually and consequently the over-dues accumulated. The management has often been reluctant to take action against the defaulters.

6. The office-holders would, however, not unoften manipulate the accounts so as to show lesser over-dues. For this, **window-dressing** is resorted to and is possible because of **defective audit.** Loans due are shown to have been paid in the books and new loans are entered to have been made, thus claiming good rate of recovery as well as of new loans. Owing to defective audit and inspection, embezzlement by dishonest management is also not unknown.

7. Another serious defect is the **dependence on external sources of finance.** Societies have mostly failed to develop habits of saving and thrift. The deposits, therefore, with them are very small. A State-wise analysis of working capital reveals that the ratio of deposits to working capital is less than 6% in the case of as many as 11 States.[1] The credit societies thus depend largely for their working capital on central financing agencies, and these agencies in turn depend on the Reserve Bank of India and the State Governments. This obliges central financing agencies to charge high rates of interest on their loans to members. In some cases as high as 12.5% or even 15% interest is charged (as in Uttar Pradesh and West Bengal). As long as the primary societies continue to lend mostly funds deposited by non-members or borrowed from secondary co-operative societies they remain only quasi-co-operative in character.

8. The secondary institutions like the State Co-operative Banks and the Central Co-operative Banks which are a very essential link in the whole organization, have also not been free from defects. For example, both these types have been indulging in commercial business rather than concentrating on the co-operative business. By their very nature they are all ill-qualified to engage in commercial business. These secondary institutions also are to a large extent dependent on external finance and this dependence has of late been growing still greater. For example, the proportion of Reserve Bank's finance to the total working capital of State co-operative banks increased from 22% in 1955-56 to 40% in 1957-58. The Central banks are in fact in much worse position. For example, even as late as the end of 1957-58 nearly half of the Central banks did not come up to the minimum standard recommended by the Reserve Bank in regard to their paid-up share capital and working capital.

According to the Planning Commission, the programme for co-operative development is not proceeding according to expectations. One of the lags pointed out by the Commission is that the work of revitalising 50,000 weak societies is not receiving ade-

1. *India 1959*, p. 283.

quate attention. Another disappointing feature is that as against the 37 million target of membership, at the end of the Third Plan, the membership had reached only 20 million by the end of 1962. Also, against short and medium loans target of Rs. 530 crores. the loans advanced amounted to only Rs. 225 crores and long credit only Rs. 45 crores as against Rs. 150 crores. It is obvious that unless fresh and determined efforts are made the targets laid in the Third Plan would not be realised.

Suggestions for Strengthening the Movement

The existence of this whole host of difficulties and defects should not, however, fill our minds with gloom and despair, for as the Royal Commission on Agriculture have put it: "If Co-operation fails, there will fail the best hope of rural India." Fortunately for us, World War II very greatly benefited the Movement, especially by wiping out the overdues and by adding to the deposits of the societies. Moreover, co-operation has spread to many new fields and extended the old ones. Both the Government and the people have assigned a very important place to co-operation in the country's programme not only of economic development but also of the entire national reconstruction. The following main lines of reform may be followed with advantage. These consist of measures to overcome the external difficulties as well as to remove the internal defects.

1. The most important line of reform is the **reconstruction of primary rural societies on the multi-purpose basis,** i.e., into **service co-operatives.** The old societies with a single object must give place to the multi-purpose co-operatives.

2. Co-operatives should be organised on the basis of **village community as the primary unit.** Where villages are too small, a number of them covering a population of about 1,000 should be grouped together for the purpose of forming a village co-operative society. There should be flexibility in determining the size of the population to be served by a village society, but care should be taken to **ensure the essential characteristics of a co-operative society,** namely, **voluntary basis, close contact, social cohesion and mutual obligation.**

3. In addition to the primary functions such as provision of credit and supply of agricultural and other requirements, village **co-operatives should help to formulate and implement the agricultural production plan of the village.** The grant of credit then should be linked closely with programmes for increasing agricultural production. Every cultivator participating in the production plan of the village should be able to secure the necessary credit for obtaining supplies of fertilizers, improved seeds, etc., and for meeting the current expenses of cultivation to the extent necessary.

4. Among the various functions of the co-operatives, **special attention** should be paid to the development of **co-operative marketing and processing of agricultural produce. Credit should be**

linked with marketing. Accordingly, village societies should be the members of marketing societies and should act as their agents for the sale of agricultural produce.

5. The existing **Central and State co-operative banks should be re-organized** and strengthened. The Central banks are at present financially very weak. This weakness can be remedied soon, for example, by the amalgamation of weak banks and by other methods. The State co-operative banks should also play a larger part than before in directing the whole Movement. Happily, the Reserve Bank has in recent years been more and more willing to offer increasing financial assistance to the co-operative movement. But this generous offer can be availed of to an increasing extent only if the secondary co-operative agencies are strong enough.

6. The societies should **tap local savings** to a much greater extent. This will enable them to lend to their members at cheap rates and to function without much dependence on outside agencies.

7. The staff of the Co-operative Departments and institutions must be imparted **intensive training in co-operation,** rural economics and banking to enable them to discharge their functions better. A beginning was made by the establishment in 1952 of an All-India Training College (at Poona) for co-operative personnel. This has been sponsored and is being subsidised by the Reserve Bank of India. Five centres for the training of intermediate personnel have also been started.

8. The movement, if it is to succeed as a popular movement, must increasingly be in the hands of non-officials, who must be encouraged in every way. Government officials should be withdrawn from the board of directors of co-operative organisations. It is now realised that in order to make the co-operative movement develop on healthy and sound lines, **its voluntary character must be strengthened** so that it becomes self-reliant and self-regulatory. For this purpose formation of federations is advocated at the national and state levels in all sectors of the co-operative economy. It seems to be necessary to reduce the dependence of the co-operative organisation on Government assistance and initiative and build up a non-official leadership in the movement to shoulder responsibility. These functional federations would be able to provide specialized assistance to their affiliates for promoting better business and management and also render financial assistance to State co-operative unions. In fact the State Governments have been asked to take necessary steps in this direction and to vest such federations with statutory powers for guidance, supervision and control over their constituents.

9. The existing co-operative law is often restrictive and the procedures are such as result in considerable delays. Therefore they should be suitably amended and revised.

10. Adequate arrangements should also be made for the training of the promising members of co-operative societies, espe-

cially of those among them who are to work as office-holders. To create better understanding of co-operative principles and practices and greater enthusiasm for co-operative activity, occasional **conferences and seminars** should be arranged where the personnel of the co-operative departments and institutions should also be present.

11. Above all, all possible efforts must be made to **develop a keen urge** among the masses themselves for co-operative action. No amount of hammering from above will go far enough. A true co-operative and democratic spirit among the people is the necessary pre-requisite for the success of the Movement. We have the shining example of successful co-operation in Denmark, where the people are not only literate, but in addition to it, co-operation is a compulsory subject in high schools so that the spirit of co-operation is inculcated among the people from an early age.

The Government of India have been very earnestly taking steps on the above lines during the last few years and have prepared plans to strengthen and expand the Co-operative Movement. Institutions for the training of staff of the department and the Co-operatives have been set up in most States. Both the Government and the Reserve Bank have now become readier than ever before to make funds available to the Movement. Special emphasis is being put on the spread of service co-operatives. In fact, the National Development Council has indicated the broad objective that the co-operative movement should be developed so as to bring within its fold all rural families by the end of the Third Five-Year Plan.

The Government has recently (August 1964) set up a high-power committee to review the existing co-operative, rules and practices, to find out the loopholes which enabled vested interests to entrench themselves in the co-operative movement. It will examine the factors inhibiting self-reliance in the movement and suggest remedies. It will suggest measures to weed out non-genuine societies.

It is hoped that not only will the pace of developing co-operatives be further accelerated but, through proper measures, the progress made will be securely consolidated. Therein lies the social and economic advancement of the country.

Recent Trends

Since the outbreak of the Second World War, the Co-operative movement has taken quite rapid strides. During this period, a number of significant trends have been in evidence and several of them have become specially noteworthy during the last few years, particularly since Independence. Let us enumerate and examine the prominent ones among them.

The first trend obviously is that of **accelerated development** during the last 15 years or so. From 1,22,000 societies (of all types) in undivided India in 1938-39, the number rose to 1,64,000

in 1948-49 and 3,41,841 at the end of 1961-62 for the Indian Union alone. Their membership and working capital have also been rising. This is a welcome trend.

Secondly, **the State has been taking increasingly greater interest in the movement.** This it has shown in a variety of ways. Besides patronising co-operatives for the distribution of scarce goods during the war-time and post-war scarcity, it has been channelling its financial assistance under the Grow More Food campaign and other schemes through the Co-operative movement. Of late the State Government have been contributing large sums of money towards strengthening the share capital of central agencies like the State co-operative banks and Central banks. At the end of June 1960, the total contribution of the State Governments towards the share capital of co-operative societies of all types amounted to Rs. 32.71 crores. Of this amount, Rs. 5.62 crores were accounted for by State co-operative banks, Rs. 8.77 crores by Central co-operative banks, Rs. 5.18 crores by agricultural credit societies, Rs. 1.78 crores by Central land mortgage banks. In the Five-Year Plans also place of pride has been given to developing Co-operative institutions.

Another very noteworthy trend is the **shifting of emphasis from the credit aspect of the movement to the various other types of activity.** There has thus been a great extension in the number and operations of weavers' and cane-growers' societies, consumers' co-operatives, milk unions and cottage industry co-operatives. Several new lines of co-operative activity have also developed (e.g., labour, housing, transport), and recently co-operative processing (e.g., sugar and cotton ginning and pressing industries). The movement has thus become fairly diversified and this is all to the good.

Perhaps the most significant trend is to **replace the single-purpose societies by multi-purpose co-operatives,** now more often called **service co-operatives.** The ultimate aim now agrarian pattern for the country is of **co-operative joint farming.** The old credit societies are being converted and new ones being organized on the multi-purpose basis. This is a very gratifying trend representing as it does a more integrated approach to rural problems.

There is also **trend towards larger areas of operation of co-operatives** and towards **limited liability** in place of small area and unlimited liability. Whereas limited liability societies constituted only 8% of the total number of agricultural societies in 1938-39, they constituted 45% in 1948-49 and 56% in 1959-60. This is as it should be, because of bigger and more comprehensive societies.

Of late the **Reserve Bank of India has been taking greater and greater interest in the movement.** Besides guiding it, it has been making available increasing financial assistance to the State co-operative banks—from mere Rs. 1.5 lakhs in 1946-47 to about

Rs. 93 crores (both short-term and medium-term) in 1960-61, for agricultural purposes only. The Bank now provides considerable long-term finance as well. Since recently the **State Bank of India** has also begun to help the Co-operative Movement in a variety of ways, particularly in providing finance.

Since recently greater emphasis than ever before has begun to be placed on a comprehensive and countrywide **programme of training and education** in co-operation for the staff of co-operative departments and institutions and members and office-bearers of co-operative organisations.

Realizing that the existing co-operative law was often restrictive and the existing procedures resulted in delay, in recent years attempts have been and continue to be made to effect **suitable amendments in law and to revise procedures**.

Co-operation and Planning. We in India are conducting our planning on democratic lines. Democratic planning offers a vast field for the fruitful application of co-operation in its infinitely varying forms Since planning in India lays great emphasis on social change and seeks to establish a socialistic pattern of society, there is a great scope for the organisation of co-operative activity. Accordingly, a central role has been assigned to co-operation in our Five-Year Plans both for rural development and for the development of cottage and small-scale industries. The Indian national policy aims at building up of a co-operative sector as part of the scheme of planned development. The fields which are specially appropriate for the co-operative method of organisation are agricultural credit, marketing and processing, all aspects of production in rural areas, use of improved seeds, use of water, soil conservation, consumers' co-operative stores, co-operatives of artisans and construction co-operatives Co operation can yield very valuable results for the community by drawing equally on individual and social incentives.

During the First Five-Year Plan, steps were taken on the initiative of the Reserve Bank for the re-organisation of the co-operative movement, especially with reference to co-operative credit. The programmes of co-operative development under the Second Five-Year Plan have been largely drawn on lines recommended by the Rural Credit Survey Committee Three aspects of co-operation have been emphasized, viz, that credit is only the beginning of co-operation and not the whole of it, that every family in the village should be a member of a co-operative society and should be made credit-worthy. In co-operation, the crucial unit is the village. In the words of the Second Plan Draft: "In a country whose economic structure has its roots in the village, co-operation is something more than a series of activities organised on co-operative lines: basically its purpose is to evolve a system of Co-operative Community Organisation which touches upon all aspects of life" (page 66). Co-operative village management is the goal of the re-organisation of the village economy.

To begin with, there may be in the village three sectors, viz., the individual sector, the voluntary co-operative sector, and the community sector managing the village common land. But the ultimate aim is to enlarge the co-operative sector until the management of the entire land in the village becomes the co-operative responsibility of the community. Thus, rural economic structure is visualized in which agricultural production, village industries, processing industries, marketing and rural trade are all organised on co-operative lines. The main principle on which the co-operative institutions are to be reorganised is that of State partnership.

The States are participating in the share capital of the large-sized co-operative and in this they are assisted by the Central Government and the Reserve Bank of India.

The State will contribute to the share capital of large-sized societies on an average of Rs 10,000 per society. About 4,000 societies are to be assisted to have godowns at an average cost of about Rs. 10,000 per godown, 25% of the cost being provided by the Government as subsidy and the rest as loan. Provision has also been made for subsidies for supervisory staff of central banks. The plan contains provision of an independent Central Land Mortgage Bank for each State as recommended by the Rural Credit Survey Committee. Since the progress of co-operative farming in the First Plan was insignificant, the Second Plan made financial provision for granting loans and subsidies to such societies for the employment of staff, for the purchase of machinery and equipment, etc.

An integrated programme of co-operative development was drawn up for the Second Plan incorporating the important recommendations of the Rural Credit Survey Committee. The co-operative movement, which had been so far confined practically to the provision of credit, was extended so as to encompass other spheres of economic activity such as marketing, processing, warehousing, storage, etc It was also considered necessary to have an apex marketing society in each State to serve as a central organisation to handle the distribution of essential goods such as fertilisers, and to co-ordinate inter-State and export trade. The State was to contribute Rs. 50,000 to Rs. 1,00,000 as share capital in respect of such societies.

In November 1958, the National Development Council resolved that co-operatives should be organised on the basis of the village community as the primary unit and the responsibility and initiative for social and economic development at the village level should be placed fully on the village co-operative and village panchayat.

By 1960-61 it was proposed that 10,400 larger-sized credit societies, each having a membership of 500, were to be established with a trained manager. Rural Credit Societies were to be affiliated to the primary marketing societies. The Agricultural

Produce (Development and Warehousing) Corporation Act was enacted in June 1956. Central Warehousing Corporation and similar State Corporations were established to facilitate construction of godowns on a large scale. The plan further provided for 1,800 primary marketing societies, 35 co-operative sugar factories, 48 co-operative cotton gins and 118 other co-operative processing societies.

A National Co-operative Warehousing and Development Board was constituted on September 1, 1956. Among other functions, it plans and promotes programmes for marketing, storage, and warehousing of agricultural produce through a co-operative society or a warehousing corporation. The Board is required to maintain two funds: (1) The National Co-operative Development Fund meant for advancing loans and granting subsidies to State Governments to enable them to subscribe to the share capital of co-operative societies or otherwise finance them, and (2) the National Warehousing Development Fund meant for subscribing to the share capital of Central or State Warehousing Corporation or granting subsidies or advancing loans to such corporations. The Central Warehousing Corporation was established in March 1957 with a share capital of Rs. 10 crores. The shares are guaranteed by the Central Government as to the repayment of the principal and the payment of the annual dividend at such minimum rate as may be fixed by them. There is a provision for the establishment of 100 warehouses by the Central Corporation and about 250 by the State Corporations during the plan period.

Apart from the contribution that the Reserve Bank might make, the Second Five-Year Plan made a provision of Rs. 47 crores for the development of co-operatives. A target of 67,000 service co-operatives was fixed for the Second Plan. It was proposed that during the Second Plan period the active membership of primary agricultural credit societies should be raised from 5 to 15 million and the amount advanced through co-operative movement as short-term loans be raised from 30 to Rs. 150 crores, and medium-term loans from Rs. 1 to 50 crores and of long-term from Rs. 3 to Rs. 25 crores. Provision was made for the creation of relief and guarantee funds by the State Governments, which, as suggested by the Rural Credit Survey Committee, were to be employed for writing off irrecoverable debts due to co-operative credit institutions arising from causes beyond the control of the institutions concerned, e.g., famine. There was also provision for the creation of State co-operative development funds to be utilised for augmenting the resources available for the development of co-operative economic activity.

It is clear that co-operative movement has now entered upon an active phase of development fully supported by the resources of the Reserve Bank, the Central Government and the State Governments. It has been recognised that co-operation is the vital principle of all rural development. Under the Second Five-Year Plan, the programmes for the development of co-operation con-

centrate mainly on credit and marketing and substantially on processing especially for producing sugar, ginning cotton, crushing oil and bailing jute. Insufficient attention has been paid to co-operative farming.

It will be seen that co-operation occupied a place of greater significance in the Second Five-Year Plan than it did in the First. Further, the outlay under this head in the Second Plan did not represent various individual schemes unrelated to each other but an integrated scheme of rural credit. It is hoped that a co-operative structure would gradually emerge which would provide credit and marketing facilities to the rural population in an increasingly large measure, offer strong institutional competition to private money-lending and trade and enable the eventual establishment of a strong and large co-operative sector in the rural economy.

Over the period of the first two plans, the number of primary agricultural credit societies has risen from about 1,05,000 to about 2,10,000 and their membership has gone up from 4.4 million to 17 million. Over this period the total loans advanced by primary agricultural societies have risen from Rs. 23 crores to Rs. 200 crores. The progress during the Second Plan was more marked than during the First Plan. During the Second Plan the amount of loans outstanding increased from Rs. 13 crores to Rs 34 crores

The Third Plan provides Rs. 80 crores for co-operation as against Rs. 34 crores spent under the Second Plan. It envisages that the membership of the co-operative societies will increase to about 37 million covering about 60% of the agricultural population. The number of societies is expected to increase to 2,30,000 so as to serve all villages in the country. It is estimated that total amount of short and medium-term credit may increase to about Rs. 530 crores and that of long-term credit to about Rs. 150 crores. The short and medium-term credit at the end of 1960-61 was estimated at Rs. 204 crores and long-term loans outstanding at about Rs. 35 crores. Programmes for Third Plan provide for the revitalisation of about 52,000 primary societies

It is estimated that the total volume of agricultural business conducted by marketing societies will increase from Rs. 200 crores to Rs. 400 crores. In the course of the Second Plan 1,670 godowns were built and about 980 additional godowns are expected to be established during the Third Plan. The total number of godowns is expected to go up from 4,100 to 9,200. In the course of the Second Plan 378 co-operative processing units other than sugar factories were assisted and in the Third Plan 783 co-operative processing units will be set up. Other items in the Third Plan programme include the development of co-operative farming, consumer co-operatives, industrial co-operatives, labour and construction co-operatives, housing co-operatives, etc. The programme of training of co-operative officials will be further extended.

The National Co-operative Development Corporation has

been set up as a planning and promotional body in respect of agricultural co-operative activities. It looks after disbursement of loans and grants of State Governments for financing of agricultural co-operation in accordance with the annual plan provisions and keeps a watch on their utilisation and making recoveries of loan instalments.

In a planned economy pledged to socialism and democracy, co-operation should become progressively the principal basis of organisation in the many branches of economic life. The socialistic pattern of life implies the creation of large numbers of decentralised units in agriculture, industry and services. Co-operation has the merit of combining freedom and opportunity for the small man with benefits of large scale management and organisation as well as goodwill and support from the community. Thus a rapidly growing co-operative sector with special emphasis on the needs of the peasant, the worker, and the consumer becomes a vital factor for social stability, for expansion of employment opportunities and for rapid economic development. Co-operation gives to the social structure and national economy balance, direction and sense of values Here is the role of co-operation in economic planning

CHAPTER XV

Community Development

Role of State in Agriculture. In a predominantly agricultural country like India with economically poor and intellectually ill-equipped peasantry, the duty of agricultural development must necessarily devolve upon the shoulders of the State. We have already discussed some of the functions which the State performs in relation to Indian agriculture. Apart from the above basic functions, the State has constructed huge irrigation works, extensive roads and railways; it provides credit for agricultural improvements, though on a limited scale; it has initiated and it controls and supervises the co-operative movement and it has passed many legislative measures for the protection of the tiller of the soil from the rapacity of the money-lender and the landlord. Moreover, through its Medical, Public Health and the Veterinary Departments, it seeks to preserve and improve the health of the agriculturist and his livestock. For the latter, it has established and maintains special cattle-breeding farms to improve the breeds. The State Education Departments also do their little bit to spread literacy in the rural areas. Agricultural Development has been given a prominent place in the Five-Year Plans. The First Five-Year Plan was a big effort on the part of the State to push agricultural development. The Plan aimed at not only increasing production of food and raw materials but also transforming the village environment and outlook of the rural population. The total outlay on agriculture, community development and irrigation amounted to Rs. 600 crores nearly in the First Plan and was put at Rs. 950 crores for the Second Plan. The programmes relating to these items included in the Third Plan entail a total outlay of Rs. 1,718 crores.

Agriculture is the premier national industry of India, providing, as it does, direct employment to about 70% of her population. The prosperity of the nation is, therefore, largely depen-

dent on the prosperity of agriculture. A great responsibility devolves on that account on the State to adopt suitable policy and to take active measures to promote that prosperity. In fact, that is all the more necessary in India where, since ancient times, the people have been accustomed to look up to the State for guidance and help.

For a very long time, the Government in India followed a policy of utter indifference. In the sixties of the last century, certain measures began to be taken for the development of agriculture. These were, however, directed more by self-interest than for improving the economic position of the agricultural masses, e.g., improving cotton to benefit Lancashire. A series of severe famines visiting India in quick succession in the last quarter of the 19th century, aroused Government to the need of looking into the weakness of agriculture. **The Famine Commissions** of 1880, 1898 and 1901 and the **Irrigation Commission** of 1903 had in their reports made many constructive suggestions for the improvement of agriculture. Accordingly, the Government changed their attitude from indifference and passivity to playing a somewhat more active and positive role. The **passing of the Co-operative Societies Act** in 1904, establishment of **Central and Provincial Departments of Agriculture** in 1905, and the constitution **of the All-India Agricultural Service** in 1906, all indicate this change in the State policy. Agriculture becoming a **provincial 'Transferred' subject** in 1919 and the introduction of Provincial Autonomy in 1937 led to greater interest being taken in the improvement of agriculture. The serious weaknesses of Indian agriculture were revealed during World War II. It was realized that even enough food was not produced in the country. The **Grow-More-Food Campaign** was launched in 1943, but its achievements were most disappointing. The Partition of the country in 1947 dealt a serious blow to agriculture in the Indian Union because the rich food surplus and cotton producing canal colony areas in West Punjab and Sind were lost.

The next phase in State policy was the **First Five-Year Plan,** wherein agriculture and irrigation were given the highest priority. A far-reaching **land reforms policy** was formulated and sought to be implemented. Besides, a network of **Community Development Projects** and **National Extension Service** have been established for rural development. The Japanese method of rice cultivation has also been introduced and is being energetically extended. In the **Second Five-Year Plan,** although top priority was given to industrial development, yet agriculture continued to receive increasing attention of the Government of India. India's Third Five-Year Plan also accords due importance to the development of agriculture.

After this broad survey of the general policy of the Government towards agriculture, we may now refer to the various measures which have been adopted by the Government to help agriculture. These may be noticed as under:—

(i) **Irrigation.** Perhaps the most important contribution made by the Government towards improving Indian agriculture has been the provision of irrigation facilities, especially **canals.** The splendid canal system, developed under the British rule, went a long way in developing Indian agriculture. Also a large number of tanks were constructed in the Deccan.

In recent years, since Independence, several big **river projects** have been undertaken and some of them have reached or are nearing completion. With the completion of the existing and several new projects, irrigation facilities will have been considerably extended to the great good of agriculture. At the commencement of the First Five-Year Plan, the total irrigated area in the country stood at 51.5 million acres, and by the end of 1960-61, this figure had risen to about 70 million acres. The target now of the Third Plan is 90 million acres.

(ii) **The Medical and Public Health Departments** have been opened to preserve and improve the health of the agriculturists. The **Education Departments,** by spreading literacy in the rural areas, have been making a very valuable contribution in improving their outlook.

(iii) **The Agriculture Departments** in the State perform very useful functions for effecting improvements in the methods of agriculture. For this purpose, they provide **agricultural education,** conduct **agricultural research** with regard to seed, manure, implements, pests, etc., and **popularise results of such research** by propaganda, distribution of better seeds and implements, etc.

(iv) **Debt Legislation and Co-operative Movement.** Another very noteworthy contribution made by the State to agriculture has been the protection of the agriculturist-debtor from the rapacity of the money-lender. In this connection, very elaborate debt legislation has been passed in all States. To further solve the problem of rural finance, the Government has initiated and controls and supervises the Co-operative Movement in India. The scope of the Movement has been extended beyond the provision merely of finance with obvious advantages to the cultivator. Of late, financing of agriculture by the Government and by the Reserve Bank through the co-operative organisation is also on the increase.

(v) **Land Reform Legislation.** In recent years very elaborate **land reform legislation** has been enacted and is being implemented. Notably, the **zamindari system** has been abolished almost all over the country and **legislation for the protection of tenants** has been passed.

This is being followed by the imposition of ceilings on land holdings to ensure a more widespread distribution of land. Energetic steps are being taken to organize small cultivators into **service co-operative** and **co-operative joint farming societies.**

(vi) **Agricultural Marketing Organisation.** To help the cultivator in realizing higher prices, the Government maintains a mar-

keting organisation both at the Centre and in the States. A large number of **regulated markets** have been set up by legislation, which are free from the malpractices which earlier prevailed in the mandis. The extension of railways and roads has not only improved the outlook of villagers, but has considerably improved marketing of agricultural produce. At the village end, the Government has helped in setting up **co-operative marketing societies.** Recently a network of warehouses is also being established in different parts of the country by the Union and State Governments.

(vii) **Veterinary Departments** are run in the States for the prevention and cure of cattle diseases. They also help towards improving the breed of cattle and carry on useful research connected with them. Recently, the **key-village scheme** of cattle development has been launched in selected areas of the country An Institute for veterinary research has been set up at Izzat Nagar. Quite a number of 'Go-Sadans' have been established under the Five-Year Plans.

(viii) **Rural Reconstruction.** Apart from the departments connected with the specific problems of agriculture, the Government has, through the State Rural Reconstruction Departments, been trying to improve the **village life as a whole**. The object of these departments has been very comprehensive, viz., raising of **the material, mental and moral levels of rural life.** Since October, 1952, rural reconstruction work has been merged into the integrated **Community Development Projects** and **National Extension Service Blocks.** (For community development projects see the preceding chapter.)

Apart from these State departments, the Central Government has also its Ministry of Food and Agriculture. The Central Government also maintains the **Indian Council of Agricultural Research,** which apart from doing useful research, attends to all problems connected with agriculture.

The above enumeration of Government activity in regard to agriculture seems to be quite impressive. But as compared with requirements of the situation, these activities have hardly touched the fringe of the agricultural problem. The main drawback in the Government policy has been that, till very recently, they have been trying only to take superficial measures, here and there, without much attempt at their co-ordination and attending to the fundamental weaknesses, such as, land tenures, excessive pressure on land, the ignorance and conservatism of the peasant. Unless bold and radical measures aimed at removing the fundamental drawbacks are adopted, Indian agriculture will fail to show any appreciable improvement. The Community Development Projects and the National Extension Service which have been taken in hand or started in recent years are steps in the right direction and should produce better results.

Earlier Efforts at Rural Reconstruction

Development of agriculture is for all practical purposes synonymous with **rural uplift or rural reconstruction.** Rural Reconstruction or Rural Uplift, as it is sometimes called, is a movement for the rehabilitation of Indian rural life. It has a material, an intellectual and a moral aspect. Materially it seeks to improve the health of the agricultural classes and raise their standard of living. The former is achieved by encouraging better sanitation and by the provision of medical aid. To realize the latter better methods of cultivation, finance and marketing are popularized. As regards the mental or intellectual aspect, educational facilities are provided for boys and girls, and adults. Information and instruction are also made available through the radio, cinematograph and lectures and demonstrations by touring parties. The moral aspect, however, is the most fundamental. It seeks to awaken the will of the villager, to make him conscious of the value of his personality and individuality. It aims at creating in him a desire for self-improvement and self-discipline by individual and collective action. The object is to free him of the inhibitions that are obstructing the way to his self-realization. It seeks to release his pent-up energies by removing defeatism, superstition, and baseless fears created by centuries of depression and oppression. In a word, it seeks to change his entire outlook on life.

It was realized that if adequate and lasting results were to be achieved, the village problem, which was the problem of poverty, ignorance, illiteracy, dirt, disease, and general apathy, must be tackled simultaneously as one problem. The Royal Commission in 1928 had already expressed the view that "if inertia of the centuries is to be overcome, it is essential that all the resources at the disposal of the State should be brought to bear on the problem of rural uplift and sustained efforts should be made by all those departments whose activities touch the lives and surroundings of the rural population."[1]

Community Development Method

There are three main reasons why earlier efforts at rural uplift failed in the achievement of its objectives. (1) In the first place, these efforts were diffused inasmuch as they endeavoured to cover the entire country. A small effort to tackle so big a problem cannot succeed. (2) Secondly, the impulse for rural development came from above. It was super-imposed and, therefore, did not arouse any enthusiasm among the villagers. (3) Thirdly, the various departments concerned with the rural uplift programme tried to tackle each problem in isolation. This could not succeed since the entire rural life is inter-related. What is needed is a co-ordinated effort and an integrated programme.

The community development programme meets all these ob-

1. Report, p. 86.

jections. The concept of the community development projects is an improvement on the earlier efforts relating to rural improvement. "It has been recognised that our effort at rural development, in order to be successful, must take the form of concentrated efforts in intensive development areas. The intention is not to neglect the rest of the country, but to make sure of success by making a small beginning in a concentrated manner in comparatively smaller area and then spread themselves out in the rest of the country. Basically this is the concept of community development or community project. It is really a concept of many-sided development as distinguished from development of a particular aspect of rural life. The intention is to bring about an all-round improvement in all the different facets of rural life, viz., agriculture, education, health, sanitation, animal husbandry, cottage industries, etc. In other words the approach is based on the realisation that the problem to be tackled is essentially a human problem and the target aimed at is the raising of the villager to a fuller life."[1]

The community development is a programme of aided self-help planned and implemented by the villagers themselves, Government offering only technical guidance and financial assistance. Its objectives are to develop self-reliance in the individual and initiative in the community and to make the villages self-governing units, community thinking and collective action are encouraged through people's own institutions.

One of the reasons why the rural improvements scheme in India did not make much headway was the meagre resources placed at its disposal. Now we have found a new source of financial aid. The Indo-U.S. Technical Co-operation Agreement was entered into on January 5, 1952, and it opened up new possibilities of rural development programmes. According to this Agreement, the U.S.A. provided a sum of 50 million dollars and the Government of India also contributed a similar amount making in all a total sum of Rs. 50 crores.

Main Features of C.D. Projects

Let us first briefly mention the main features of the projects. First, our efforts in the past were diffused over much too large an area, since they tried to cover the entire country. Little wonder, they did not succeed. The first feature, therefore, of the Community Development Projects is that they cover only a few selected areas for concentrated effort. "The intention is not to neglect the rest of the country, but to make sure of success by making a small beginning in a concentrated manner in comparatively smaller areas and then spread them out in the rest of the country."

Secondly, and the more important feature, or we can call it **the basic concept** of the Community Development Project, is that it seeks the **many-sided development of rural life,** as distinguish-

1. *Commerce Annual,* 1952, 15, an article by Shri U. L. Goswami.

ed from the earlier efforts in which the various aspects of village life were sought to be improved piecemeal and in isolation from each other. As the Royal Commission of Agriculture had also observed: "The problem of improving agriculture is really the problem of improving Indian village life and this must be tackled **as a whole.**" Thus, since all facets of rural life are closely interrelated, the only correct and effective method would be to attack **all** the problems **simultaneously** and in **proper co-ordination with each other.** This precisely is the approach of the Community Development Projects.

Thirdly, and an equally important feature is great **emphasis** that these projects place **on the impulse for rural development coming from the rural people themselves.** In earlier attempts the programme of improvement was almost invariably forced down the throats of the people from above by official or philanthropic organisations; but no lasting results can be produced until the villager himself is filled with enthusiasm and determination to improve his own condition The essence of these community projects is, as their name itself shows, to "**help the people to help themselves**".

Fourthly, these projects provide for a **single multi-purpose agency** reaching the very door of the farmers In the case of earlier attempts, not only did the various development departments work independently of one another without a sense of common objectives, but each of these approached the villager through its own official hierarchy (e.g., successive layers of officers), and it was the lowest official of each department who came in actual contact with the villager. This lowest official in all the departments was inadequately trained and incapable of providing guidance to the villager The community projects avoid this basic drawback.

Fifthly, **adequate financial and technical** provision is made to ensure their success Previous attempts had suffered from serious inadequacy of such resources.

We may now study the actual organisation and programmes of these projects, emphasizing the exact manner in which the above-mentioned features have been provided

Organisation

These projects are broadly of **two types,** viz., (i) the **basic projects**, and (ii) the **composite projects.** In the **basic projects** the primary emphasis is on increasing agricultural production, of course, with some work in other spheres, such as public health, education and road construction. Generally each project covers about 300 villages, 2 lakh of population, 500 sq. miles of area and 1,50,000 acres of cultivated land. The whole project area is divided into 3 **development blocks**, each block covering about 100 villages.

In the **composite projects** and blocks besides agriculture, emphasis is also laid on the development of small industries. An

urban centre is provided for the purpose and that is to serve as the pivot for the development in the area. The development of industries is to be on the pattern of the Nilokheri and Faridabad projects. Government expenditure in such projects is naturally higher.

Until recently, the programme of these projects was being carried out in **three** distinct phases. Initially, the block used to be worked for three years under the **National Extension Service,** a programme of somewhat less comprehensive character; this was followed by another period of three years of **intensive development.** Finally, the block went through the **'post-intensive'** stage. In 1958 this was substituted by a **two-stage pattern,** and the **previous distinction between N.E.S. and Community projects was removed.** Now, first there is a **period of intensive development** lasting five years; then a block enters into the second stage during which development work is continued with relatively reduced budget provision for another five years. In the first stage, the total outlay per block is to be Rs. 12 lakhs, and for the second stage Rs. 5 lakhs. Before it enters the first stage every block undergoes a **'pre-extension phase'** of one year during which the programme is exclusively confined to agricultural development. Simple tasks like keeping the village clean or digging compost pits are laid down for a test of the self-reliance of the people before the programme is taken up in an area.

For each project, there is a **Project Executive Officer** at the project headquarters and one **Block Development Officer** in each block, with them are associated about 12 **technical experts** in agriculture, veterinary and animal husbandry, co-operation and Panchayats, social education, public health, road engineering, etc. Their duty is to draw up the programme of intensive development by mutual consultation.

However, to give effect to such a programme there is for a group of four-five villages, a village-level worker or **Gram Sevak,** who before his appointment is given sufficient training in agriculture, animal husbandry, and other related matters of rural life and in extension methods. It is the village-level worker who has to remain in constant touch with the villagers in his charge and has to guide and help them in accomplishing the programme of the development. He is to be their friend, philosopher and guide, and is thus the pivot of the whole scheme in his area. In short, he is a **multi-purpose man.** His work is not to be conceived or executed along narrow departmental lines. He, in turn, gets guidance, and instructions from the technical experts at the project headquarters. This whole system is, in essence, the **National Extension Service,** which has worked wonders in the development of agriculture in countries like the U.S.A. and the U.K.

The emphasis throughout has to be on **evoking community effort** and **participation in the whole work of development.** To ensure this every project has a **Project Advisory Committee** to

advise and enlist public co-operation **in the stage of planning** of the various programmes of development. The same pattern is gradually to be followed in development blocks and villages. Similarly, provisions have been made to ensure public participation in **the execution stage. Minimum scales of voluntary contributions** have been laid down with that object. These may be in the form of cash, kind or voluntary labour. The **Bharat Sevak Samaj**, which has been organised, is expected to serve as an agency for organising voluntary effort on the part of the villagers.

Their Programmes

The main fields of activity in these projects are agriculture and related matters, communications, education, health, supplementary employment, housing and social welfare. Minor irrigation works have been given great importance, generally one-third of the total financial provision is for them. Then comes manure—chemical or organic or rather a combination of both. Improved seeds and improved methods of cultivation with improved implements are to be made available to the cultivators for increasing the yield. In all these directions, attempts are to be made to utilize the results of scientific research. The other vital problem of the rural population is their under-employment owing to the seasonal and fitful nature of their occupation. This is to be met by placing emphasis on the development of village industries.

Since full development of a community cannot be achieved without a strong educational base and without a health programme definite arrangements and organisation for these form an integral part of the programmes of the projects. Road programme is also essential. It is to be so designed as to link up every village in the project area with the main road. These feeder roads are to be built with the voluntary labour of the villagers.

In short, the people are to be inspired and their enthusiasm to be enlisted for a fuller life and for earning the necessary wherewithals for it.

Administration and Finance. The Central **Ministry of Community Development and Co-operation** is in overall charge of the programme. Matters of basic policy are, however, determined **by the Central Committee on Community Development,** which includes members of the Planning Commission. The **execution of the programme** is the responsibility of the State Governments. The executive head of the programme in the States is their respective Development Commissioner. The Deputy Commissioner as Chairman of the District Planning and Development Committee is responsible for the implementation of the schemes in the district.

The community development programme is financed by the Central Ministry of Community Development and Co-operation, the State Governments and the aid received from the U.S. Government's Technical Co-operation Mission.

Resources for the programmes are drawn from both the Government and the people. For each block area, development schemes are conditioned by a qualifying scale of voluntary contribution from people in cash, kind or labour.

Progress

The first fifty-five Community Development Projects were inaugurated, very aptly, on the 2nd of October, 1952, the birthday of Mahatma Gandhi. On the first anniversary of these projects, i.e., on October 2, 1953, 55 more Community Development Blocks were inaugurated, besides about 251 National Extension Service Blocks. Since then their number has been rising, so that by October, 1960, the community development programme covered 3,110 blocks, 3 6 lakh villages and nearly 20.3 crore persons or about two-thirds of India's rural population. The Second Five-Year Plan originally had the target of covering the entire rural area by the end of the Plan period But, on the recommendations of Balwantrai Mehta Committee, the target date for extending to the whole country was postponed to October, 1963, and by the end of the Second Plan, the programme extended to about 3,100 blocks, comprising about 4 lakh villages. Of these, over 1,000 blocks completed more than five years, and entered the second stage of the community development programme and about 2,040 blocks will still be in the first stage.

Till the end of January, 1963, 4,187½ stage I and stage II blocks were set up, covering about 4 54 lakh villages and a population of 26 86 crores. There were also 961½ pre-extension blocks functioning in the country The whole country has been delimited into 5,223 blocks

Unfortunately the achievements of the programme have fallen short of the original expectations. Yet the progress cannot be said to be negligible. Below we may reproduce a few important achievements in 1961-62:

(1) **Agriculture.** Chemical fertilizers distributed, 1.8 crore maunds; improved seeds distributed, 75.3 lakh maunds; agricultural demonstrations held, 9.5 lakhs.

(2) **Social Education.** Adult education centres started. 58,389; adults trained, 9 54 lakhs; village camps held, 13,131; Gram Sahayaks trained, 4.93 lakhs.

(3) **Health and Sanitation.** Drinking-water wells constructed, 37,440; renovated, 40,390.

(4) **Communications.** Kachha roads constructed, 15,836 miles; besides improving existing kachha roads and building a large number of culverts.

Training

A large number (91) of extension centres have been opened for imparting training to Gram Sevaks, 35 for Gram Sevikas, 13

for Social Education Organisers and 8 for Block Development Officers; similarly there are training centres for other categories of personnel. **The Trainers' Training Institute** has also been set up at Rajpur, near Dehra Dun, to provide training to Principals and the instructional staff of different training institutions. In 1958 a **Central Institute of Study and Research in Community Development** was set up at Mussoorie for giving higher training to the technical and administrative key personnel in the C.D. programme. An increasingly large number of short duration camps are being held in rural areas to train non-officials. Till the end of 1963, 5,745 Block Development Officers, 6,213 Social Education Organisers and 5,730 Extension Officers had been trained. Also, 61,601 Gram Sevaks and 5,771 Gram Sevikas had been trained till the end of September, 1963.

Expenditure on Community Development during the First and Second Plan periods amounted to Rs. 235.07 crores. The anticipated expenditure for the Third Plan period is Rs. 321.9 crores. The people's contribution till March 1963 amounted to Rs. 129.72 crores forming about 40% of the government expenditure which was Rs. 343.63 crores.

Critical Appraisal

At the time of their launching, community projects were regarded as the most promising symbol of new India and were expected to achieve a **"human revolution"**. Now that over twelve years have elapsed since this programme was inaugurated, we shall do well to take stock of the success and failures.

Success. There is no doubt that a certain measure of success has been achieved. The initial difficulties inherent in organising any new movement have been considerably got over, institutions for providing training to all categories of personnel required in running the movement have been set up and are working satisfactorily; substantial physical targets have also been reached in agricultural improvement and local community works (for these **see** the relevant portion of the answer to the preceding question); and above all, there has also grown up a distinct desire among the rural populace for favourable economic and social changes.

Failures and Weaknesses. The Planning Commission has set up a separate **Programme Evaluation Organisation** which carries on a continuous evaluation of the community projects. Till the end of 1960, seven annual reports had been produced by this organisation which throw a searchlight on the successes and failures of the whole programme. In 1957 was also submitted a comprehensive report on Community Project and National Extension Service Scheme by the **Balwantrai Mehta Committee.** Besides, in 1960 was submitted a critical report by the **"Community Development Evaluation Mission"** in India sponsored by the United Nations Technical Assistance Administration. These reports have

drawn special attention to the following drawbacks of the whole programme.

(i) **Insufficient attention paid to agricultural improvement.** Investments made so far under C.D. schemes have tended more in the direction of **means of communication,** such as roads, and **village amenities,** such as wells and schools, rather than in the direction of agricultural improvement. It is a case of mistaken priorities. For example, cement which is urgently needed for irrigation canals is lavishly used for making roads. This reveals lack of judgment on the part of officer-in-charge on the relative importance of work to be done.

(ii) Extension of irrigation facilities and programmes of reclamation of land and removal of pests and diseases and soil erosion have **fallen short of anticipated levels.** The Seventh Evaluation Report (1960) noted that the lack of irrigation facilities was cited as problem in the largest number of blocks (in 14 out of 18 blocks it studied). Pests and diseases and soil erosion were also serious problems in many blocks.

(iii) While the use of improved seeds and fertilisers has generally increased in community development areas the **pace of adoption of other improved cultural practices has been slow,** such as that of line sowing, the Japanese method of paddy cultivation, seed treatment and intensive manuring. Shortages of fertilisers and of improved seeds and lack of irrigation facilities have been cited as reasons for the slow progress. The distribution system in respect of them is very defective and needs many improvements.

(iv) The programmes for the development of **animal husbandry** and **fisheries** have not yet made sufficient progress. The popularity of artificial insemination has increased, but there is inadequacy of the number of **insemination centres.** Also the number of **pedigree bulls** distributed in a number of blocks falls short of their targets for this programme. Furthermore, in several blocks there is no definite programme for increasing the acreage under **fodder crops.** As the Seventh Evaluation Report has warned, "the upgrading of breeds will fail to show significant results in the performance of animals unless it is accompanied by necessary improvement in the quality and quantity of seeds supplied to them."

Regarding fisheries, the general picture is **particularly unsatisfactory.**

(v) The position regarding **health** and **education** is also not satisfactory. The assistance available from the blocks has not been availed of in many blocks as the requisite participation by the people has not been forthcoming. In some blocks, **full use of facilities** like drinking water wells, hospitals and dispensaries is not made, nor are they properly maintained.

(vi) Whatever **progress** has been achieved has been **uneven**

in respect of both the different States and within the individual States.

(vii) Another serious weakness of the programme has been the **wide disparity in the distribution of its benefits.** It has made the better off materially more better off than the less better off. If any gains have accrued to the economically handicapped class of rural people, it appears that these benefits have come to them as a by-product. This is contrary to the basic principles of social justice and equity which underlie our Five-Year Plans. The latest report of the Ministry of Community Development itself points out that during the Third Plan one of the objectives will be to take necessary steps to ensure that economic assistance and the benefits of the various development programmes flow in adequate measure to the weaker sections of the community.

(viii) A further serious shortcoming in the working of the C.D. programme is on the **institutional side. The panchayats** are reported to be working very unsatisfactorily. The participation in planning work is inadequate. The presidents of some panchayats are so powerful that they create a gulf between themselves and the people for whom they work. In many panchayats, meetings are seldom held to discuss public issues of common interest.

The position of **co-operatives**, which are the other chief agencies for many development activities, is equally bad. Credit co-operative societies, multipurpose societies and industrial co-operatives have not made much progress in C.D. areas in terms of number, membership, working capital and owned capital. When so much reliance has been placed on these institutions for the working of the community development programme their inability to bear the burden is a serious weakness.

(ix) There has been only an imperfect co-ordination among the various organisations and agencies engaged in the work of community development. Little wonder, the results are not satisfactory.

(x) Another great weakness in the C.D. programme is that **people's contribution in development projects** is very inadequate. In very few blocks have there been instances of public works or development programmes of common benefit undertaken by the people without any financial and/or administrative sponsorship from the blocks.[1] Voluntary contributions have no doubt been made by the public in many cases. But they do not always represent genuine sacrifice; there have been cases "where buildings which are of no value to the donors have been presented for public purpose". There has been a **tendency to inflate public contribution** presumably in order to win official applause. This inflation is sometimes made by including among public projection items of work of individual or private benefit.

1. *Seventh Evaluation Report*, 1900, p. 88.

(xi) Further, there is the difficulty of securing the right type of development officers and gram sewaks. At present, most of the gram sewaks are city dwellers who seldom believe in the dignity of labour themselves Their training is also inadequate. At the block level, the bureaucratisation is disturbing with the administrative staff predominating over the technical men.

(xii) Lastly, the most important weakness of the CD scheme has been that it has **failed to enthuse the villagers or to create in them the spirit of self-help, self-reliance and co-operative effort to ameliorate their own lot.** In many blocks the general attitude of the people is that community development work is an affair of the Government, that "since the government is out to develop the rural areas, it should do everything without seeking any contribution from the people". In a number of blocks "the majority are not convinced about the necessity and utility of the programme" It is true that there are blocks or groups of people in some blocks who have a healthy awareness of the importance of CD projects But, on the whole, the people's attitude and reactions in most of the blocks are "not yet generally favourable to the growth of self-reliance in village communities, which is the primary aim of the C.D. programme". (**Seventh Evaluation Report**, p. 90) The basic philosophy and approach of the programme "are therefore inadequately subscribed to by the people in these areas" Thus, we cannot but conclude that "the general level of achievements of CD programme is still low and far from adequate"

The planners are seriously worried about the failure of the community development programme to attract more people and bring out the best in them Mr Ashoka Mehta, Deputy Chairman of the Planning Commission, said in an interview on July 23, 1964, that there was something wrong somewhere, either with the projects or with their execution The people at large were passive which he said, if allowed to continue will recoil on the planners and all planning A survey report by Indian Institute of Public Administration has revealed that 50% of the people were completely ignorant of the goal of the community development programme and many said that they did not know of its achievements The Union Community Development and Co-operation ministry has drawn the attention of the States to the slow progress of the community development programme in the field of village industries and social services However in the field of seeds, fertilisers and compost construction of minor irrigation works and development of fisheries there has been marked improvement.

Suggestions for Improvement

Following the main recommendations of the **Balwantrai Mehta Committee** and the **Community Development Evaluation Mission**, we make the following suggestions:—

(i) In order to reduce the present over-dependence on official

initiative and help, and to enthuse the people and to make them self-reliant, there should be **"democratic decentralisation"**. For this purpose, a new body, to be named the **'Panchayat Samiti'**, be set up which will be responsible for developmental activities in the block. It should be co-extensive with a development block and be constituted by indirect elections from **village panchayats**. There should be a three-tier organisation consisting of **village panchayat** at the base, **Panchayat Samiti** at the Block level and **Zila Parishad** at the district level. The Gram Sewak, who is the key figure of the present community development system, should become the 'development secretary' of the Village Panchayat or Panchayat- Samiti within his circle.

(ii) Emphasis should shift without delay from village amenities to agricultural production. Therefore, the priorities as between different activities should be supply of drinking water, improvement of agriculture and animal husbandry, co-operative activities, rural industries and health, followed by all others During agricultural seasons the Gram Sewak should be relieved of all other duties so that he devotes his undivided attention to agricultural programme. If he knows his job thoroughly he should be able to function as an effective liaison officer between agriculturists and agencies for the distribution of fertilizers, pesticides and other essential means of stimulating agricultural production.

(iii) Those items should be chosen for the programme which are now known to appeal to groups of village people instead of offering benefits to individuals only This will soon create group confidence in the villages rather than the present pre-occupation with only individual selfish interests.

(iv) Efforts should be made to promote **service co-operatives** as an aspect of C.D for collective purchase and sale and joint use of equipment such as pumps and, in due course, tractors. For the success of such co-operatives, emphasis should be placed on the education of members, initiative and energy in the administrative personnel and advanced commercial training for the managerial staff.

(v) In regard to **village industries**, we shall suggest that excessive importance should not be attached to hand industries in case where machines are freely available. Facilities should be provided in C.D. areas for the training of artisans in metal-working, brick-making, tanning and other industries which would prepare the way for modern industry. Further, village industries should be linked up with urban markets to ensure the prosperity of villages.

(vi) Efforts should be made to convince the farmers of the need for undertaking **soil conservation measures**. Our suggestion in this regard is that public works programme centred on soil improvement be planned.

(vii) The number of village level workers should be increas-

ed so that each village level worker, who is the key figure in the C.D. system, should serve a limited farming population in a better and more efficient way. Agricultural Extension Staff should also be strengthened by the addition of crop and irrigation experts.

(viii) Efforts should be made to **make use of unskilled labour** which is abundant in villages and which can contribute to the economic development of the country through the intensification of agriculture, soil conservation, minor irrigation, afforestations, etc. In all these labour-intensive activities, community development workers must play a key role as stimulators, advisers and organisers of people in local communities.

(ix) Panchayats, which are so important in laying the foundations of village government, should be able to reply to an increasing extent on their own activities for the welfare of the community. In order to do this adequately, they should be able to count on more revenue from the money raised locally. This should partly be done by allotting to panchayats a larger proportion of the collection of land or other rural taxes. Panchayats should be charged with making development plans at the village level. For this they will need careful and persistent training in these important aspects of their responsibility.

(x) The **pace of the coverage** of the country by C.D. schemes **should not be unduly fast.** The Government has recently changed the target date for complete coverage of the country with the programme from March 1961 to October 1963. But we feel that even the revised rate of expansion is rather fast. Due to the rapid rate of expansion, many posts in the existing blocks remain vacant and the blocks themselves are made larger than the standard prescribed. It is, therefore, suggested that the Government should concentrate on consolidating the existing blocks and proceed further at a slow but steady rate of expansion.

In cautioning against fast rate of expansion, the Community Development Evaluation Mission (1960) observed that "a role of expansion that is unrealistic and too fast can only multiply existing difficulties and create illusory coverage achievements".

(xi) There should be **better co-ordination between the various organisations and agencies carrying on development work** in the project areas. Greater attention should also be given to the selection and training of community projects personnel.

(xii) Finally a clear line of communication should be established from the top to the bottom and vice versa for conveying the programme to, and ascertaining the relations of, the people. For several reasons, the existing lines of communication seem to be blocked. The patience and capacity for listening to villagers which are excellently demonstrated by some of the top level officials are generally found wanting in officials in the lower ranks. Very few C.D. officials are in touch with villagers' expectations. Therefore, in the interest of the revitalization of the C.D. programme, it is necessary to open up these lines of communication

for facilitating the free flow of ideas from the very top down through all the ranks of officials and from the village level up to the top.

The Programme Evaluation Organisation of the Planning Commission, in its fourth report on the working of Community Projects and National Extension Service Blocks, said, "the objective of inducing public participation and positive support has been comparatively successful in the case of constructional programmes but not in the case of institutional programmes." The P.E.O. also came to the conclusion that while there had been considerable increase in rural consciousness of economic and, to a smaller extent, of social needs, too much dependence on Government initiative and assistance was still being exhibited by the vast majority of rural population affected by the programme. There was also wide disparity in the distribution of the achievements and, therefore, of the benefits of the community project programmes. This is a matter of serious concern not only in terms of regional and social justice but also in terms of the political consequences that may ensue in the context of the increasing awakening among the people.

In its seventh report released in June 1960, the Programme Evaluation Organisation says that on the whole the general level of achievement of community development programme is still low and far from adequate, the majority of the villages do not regard it as their own programme and seem to rely mainly on the Government for effecting the development. The Development and Planning Division of the Economic Department of the Reserve Bank undertook a study of the impact of community development on the rural population. In its report in February 1961, it said that the progress was on right lines but the pace was slow. There are some pockets of successful achievement and these pockets have to be extended. To change the attitude of the people is a long process. If the experiment of Panchayat Raj succeeds, the movement will really pass into people's hands.

The Government is not unaware of the various shortcomings and it is continually examining the various suggestions put forward for removing them. It has already accepted the main recommendations of the Balwantrai Mehta Committee and the Community Development Evaluation Mission (1960), which we have noticed above as suggestions, and action is gradually being taken on them.

We must not, however, forget that it may be easy to introduce measures of democratic 'decentralization', but that these will be successful is different. When it comes to their actual practice, we cannot help entertaining doubts regarding the capabilities of Panchayat Samitis and other elected bodies at local levels, because in the past such bodies have seldom been successful in discharging even much lesser responsibilities, owing to personal rivalry, deep-rooted jealousy, local politics and party factions.

But the significance of Community Development Projects is so great that all our energies must be spent towards making them successful.

Agriculture in the Five-Year Plans

India's First Five-Year Plan gave top priority to agriculture. Of the proposed total outlay 31% was to be spent directly on agriculture and irrigation. For the achievements of the targets of additional agricultural production, extension of irrigation facilities, increase in the cropped area by schemes of land reclamation and higher yields from lands, already under cultivation through improved techniques, were provided for. Greater importance was no doubt given to industry in the Second Five-Year Plan but the emphasis on agriculture continued. Although the funds allotted for agriculture and irrigation were only 20% as against 31 in the First Plan, yet the actual amount was much larger, i.e., Rs. 950 crores instead of Rs. 600 crores nearly.

The reform of an antiquated land system which was hampering agricultural production, setting up a nation-wide agricultural extension service as a part of comprehensive community development programme, expansion of irrigation facilities and the establishment of a number of specialised institutions for providing credit to agriculture were the notable features of the First Plan. The Second Plan carried the basic policies initiated under the First Plan a step further. Basic facilities like irrigation, power and transport which are essential for agricultural development were greatly expanded. The consumption of nitrogenous fertilisers increased from 55,000 tons in 1950-51 to 105,000 tons in 1955-56 and to 230,000 tons in 1960-61. The net irrigated area went up from 51.5 million acres in 1950-51 to 56.2 million acres in 1955-56 and 70 million acres in 1960-61. The total outlay on agriculture, community development and irrigation amounted to Rs. 1,551 crores during the decade of the first two Plans.

As a result there was substantial increase in agricultural output as is clear from the following table:

Production of Major Crops

Crop	*Unit*	*1950-51*	*1955-56*	*1960-61*
Foodgrains (cereals and pulses)	million tons	52.2	65.8	76.0
Oilseeds	million tons	5.1	5.6	7.1
Sugarcane (gur)	million tons	5.6	6.0	8.0
Cotton	lakh bales	29	40	51
Jute	lakh bales	33	42	40

The yield per acre also rose significantly. The average yield of rice per acre, for example, increased from 694 lbs. in the quinquennium 1946-47 to 1950-51 to 727 lbs. during the First Plan period and to 807 lbs. in the Second Plan period. About 4 million

acres were reclaimed by the end of the Second Plan. Mechanical cultivation was extended to 5 lakh acres and land improvement to 15 lakh acres. About 4,000 seed farms were established; about 11.8 million acres were estimated to have been brought under green manuring and about 2.7 million acres were covered by soil conservation measures.

Besides the formulation and implementation of programmes for agricultural development, the first two Plans also brought about a reorganisation of agrarian structure. Measures in this direction consisted of (a) abolition of intermediaries, (b) production and improvement of tenancy rights, (c) imposition of ceilings on land holdings, (d) consolidation of land holdings, and (e) amelioration of conditions of agricultural labourers. Among the most significant developments in the agrarian economy during the past decade is the introduction of the extension services through the country as an integral part of the community development movement and democratic decentralisation of rural development work. A number of useful experiments were initiated in co-operative farming and a National Co-operative Farming Board was established to promote the expansion of co-operative farming.

Agriculture in the Third Plan. The programmes for agricultural, irrigation and community development included in the Third Plan entail an outlay of Rs. 1,718 crores as against 950 crores in the Second Plan. It is aimed to nearly double agricultural production over the next five years. Production of foodgrains and other crops is expected to rise by 30% nearly.

Measures to achieve this growth are as under:—(1) A large programme of irrigation comprising major, medium and minor irrigation schemes will extend irrigation to about 20 million acres raising the net irrigated area to about 90 million acres. (2) Soil conservation, dry farming and land reclamation. Dry farming techniques are to be introduced on 22 million acres. (3) The consumption of fertilisers is to be stepped up—a five-fold increase in nitrogenous fertilisers and six-fold increase in phosphatic fertilisers. The area under green manures is to be increased from 11.8 million acres to 41 million acres. (4) Plant protection measures are to be undertaken over an additional area of 50 million acres. (5) Special efforts will be made to introduce modern technology in rural areas through large-scale programme of improved agricultural implements and machines and adoption of scientific agricultural practices. (6) Seed multiplication and distribution. (7) Community development programme will be extended to the entire rural area by October 1963. This will bring technical assistance and supplies within the reach of the farmer in the country. (8) Membership in service co-operatives is expected to increase to about 37 million, i.e., about two-thirds of agricultural families. There will be considerable expansion of co-operative credit. The number of co-operative marketing societies will be increased, co-operative farming will be popularised.

There is a programme of setting up 22,000 primary consumer's stores and 50 wholesale stores. (9) Selected districts having particularly maximum irrigation facilities and assured rainfall and minimum natural hazards will be put under intensive agricultural development programme for stepping up agricultural production. These areas will get concentration of technical help, fertilisers, improved credit and other supplies.

As a result of such measures, production of major crops will go up as shown below:—

Crop	*Unit*	*1960-61*	*1965-66*	*% increase*
Foodgrains	million tons	76.0	100.0	32
Oilseeds	million tons	7.1	9.8	38
Sugarcane (gur)	million tons	8.0	10.0	25
Cotton	lakh bales	51	70	37
Jute	lakh bales	40	62	55

A substantial part of the increase is expected from improvement in the yield per acre. For example in case of rice it is expected to go up from 807 lbs. per acre to 1,030 lbs. per acre. As a consequence of the improvement it is hoped that the country will achieve self-sufficiency in foodgrains and the availability will go up from 10 oz. per day per capita to 17.5 oz. per day. Large programmes for the improvement of animal husbandry, dairying, fisheries and forestry have been included in the Third Plan. Attention will also be paid to the production of foods like fruits and vegetables so that the people get a balanced diet. More than any other factor, the success of the Third Plan will turn on the fulfilment of its agricultural targets. Thus agriculture still continues to dominate the thoughts of our planners.

It seems that the various measures adopted all these years have borne some fruit. These measures include use of fertilizers, spread of irrigation facilities, provision of cheap credit, etc. In the field of agricultural development, the role of the State is not only important but crucial. Unless the States adopt bold and effective measures, the problem of increasing agricultural production will not be solved and unless this problem is solved, it will have inevitable repercussions on the rest of planning and development.

The mid-term appraisal of the Third Plan shows that agriculture has got stuck up and is not making any headway. That the Indian economy is in a state of stagnation is all due to the sluggishness of Indian agriculture. Naturally the Planning Commission are worrying about it.

Deficiencies in the implementation of soil conservation and land improvement programmes have caused a major setback to Indian agricultural development.

The Government of India has taken a series of measures during 1964-65 to accelerate agricultural programme. As recommended by the Planning Commission, the State Governments have made substantially higher provision for agricultural programmes, Rs. 147 crores as against Rs. 126 crores in 1963-64 and Rs. 87 crores in 1962-63. The target for short and medium-term credit for 1964-65 has been fixed at Rs. 375 crores against anticipated advances of Rs. 317 crores in 1963-64 and the actuals of Rs. 265 crores in 1962-63, the Third Plan target being Rs. 530 crores. The central teams are visiting States to ensure implementation of the programme.

In November 1963, the National Development Council set up two bodies: the Agricultural Production Board and the Land Reforms Committee to accelerate agricultural development.

CHAPTER XVI

Land Revenue

Land revenue as a source of State income has come down to us from time immemorial. The land revenue systems prevailing in India may be classified from two points of view:

(a) Whether the land revenue is fixed once for all, or whether it is revised periodically. The former is known as the "Permanent Settlement", and the latter the "Temporary Settlement". In the case of temporary settlement the period of revision varies from 20 to 40 years.

(b) The second basis of classification is the responsibility for paying the land revenue. On this basis we have three land revenue systems: (i) Zamindari system, (ii) Mahalwari system, and (iii) Ryotwari system.

We shall now take up these systems one by one.

LAND REVENUE SYSTEMS

Permanent Settlement

A **"settlement"** may be defined as official assessment of land revenue due to the Government. It is preceded by a more or less full survey, classification and valuation of the land, an inquiry into the rights of all persons concerned. It is both a fiscal and a judicial operation. A settlement, as we have noted above, may be Permanent or Temporary.

The Permanent Settlement was introduced in Bengal in 1793 and later extended to Banaras in 1795 and also northern parts of Madras Presidency. The revenue due from the Zamindars was fixed in cash in perpetuity. The rate fixed was 10/11ths of the rents realized by the Zamindars at the time, 1/11th being left to the latter as their share. As the value of land gradually rose due to increased security and higher prices of produce, rents

were increased and hence the incomes of Zamindars rose considerably. In 1900, it was officially estimated that the land revenue paid to Government from permanently settled areas amounted to less than Rs. 4 crores, whilst rentals in the same areas amounted to no less than 16½ crores.[1] The Bengal Land Revenue Commission (1938-40) recommended its abolition. Let us examine the pros and cons of the system.

The Permanent Settlement is supported on the following grounds:—

(a) From the financial point of view, it ensured a fixed and stable revenue for the State.

(b) It was considered to help political stability in India by creating a loyal class of Zamindars. (But area under temporary settlement also enjoyed political stability.)

(c) It was said to have created leaders in the political and social fields who spread "education", sound ideas, and sanitation. (This advantage seems doubtful, especially the political leadership of a loyalist class.)

(d) It is further said that the system created a prosperous peasantry with resourcefulness and enterprise . (But famines have been as common in Bengal as elsewhere. Only the Zamindars have prospered at the expense of the cultivators and the public treasury.)

Permanent Settlement can be beneficial to the people only if all intermediaries between the State and the tiller of the soil are abolished. In that case, the advantages of future increment of the rental should be enjoyed by the actual man behind the plough.

The majority of Bengal Land Revenue (Floud) Commission favoured the abolition of Permanent Settlement on the following grounds:—

(a) It deprived the Government of a share of increase in the value of land which resulted on account of the increase in population and extension of cultivation.

(b) It involved the Government in loss of revenue from minerals and fisheries.

(c) It deprived the Government of intimate knowledge of rural conditions as afforded by the Ryotwari system.

(d) It imposed an iron framework which has stifled initiative and enterprise of all classes.

(e) It encouraged excessive amount of sub-infeudation, creating a number of intermediate interests between the Zamindar and the actual cultivators.

In short, Permanent Settlement resulted in the evils of absen-

1. Government Resolution on Land Revenue Policy, 1902, p. 82.

tee-landlordism, rack-renting, and economic serfdom of the actual cultivator.

The Commission favoured the replacement of this system by a Ryotwari system and added that it was no longer suited to the condition of the present time. The policy should be to bring the actual cultivators into the position of tenants holding directly under the Government.[1]

Temporary Settlements

Temporary settlements are not of a uniform character. Here differences arise due to (1) differences in persons from whom the charge is collected, (2) differences in the period of settlement, (3) differences in the methods of calculating the charge, i.e., (a) in arriving at the "net assets", and (b) the proportion of such assets taken by the Government.

As regards the agency by which the charge is paid, as we have already seen, the determining factor is the system of land tenure, of which we have three types: (i) **Zamindari Settlements**, (ii) **Mahalwari Settlements**, and (iii) **Ryotwari Settlements.**

We shall now study the assessment under the three systems of settlement: the Zamindari, the Mahalwari, and the Ryotwari.

Zamindari Settlement

Permanent settlement of Bengal is also Zamindari system, and we have considered it already Here we shall take the settlement with Zamindars in Bengal who are under temporary settlement and also the settlement with the Talukdars of Oudh.

The usual settlement operations are gone through, i.e., holdings are demarcated, land is surveyed, rights of the various parties in the holdings are recorded, and the amount of land revenue payable to the State assessed. The Settlement Officer ascertains the rental values of lands. As the landholders in Bengal are usually middlemen, the State takes away as high a percentage as 70% as its share of the rented value. The position of the Oudh Talukdars is also weak, and the settlement is virtually with the village communities under them who are asked to pay a little more, so that a Talukdari allowance, say 10%, may be paid to the Talukdar from the Government treasury. Now intermediary rights have been abolished.

Mahalwari Settlement

This type of settlement operates in Western U.P. and the Punjab. The land is supposed to be owned by the village communities or the co-sharing bodies. It is joint landlordism as distinguished from individual landlordism prevalent in Oudh (U.P.) and Bengal covered by the Zamindari Settlement.

A survey of all lands is conducted, boundaries of holdings

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1. Bengal Land Revenue Commission Report, Vol. I, p. 43.

are demarcated, and a complete record of rights is prepared of all the parties interested in a particular estate. This land is divided into circles according to productivity.

Net Assets. Rental assets, called Net Assets, of each estate are ascertained which consist of the cash rents received by the landlord and the money value of the benefits he derives from the ownership of land, e.g., grazing rights, fodder, fruit, vegetables, etc. If the land is given rent free or if the land is cultivated by the proprietor himself, or if rent is paid in kind instead of cash, then an attempt is made to find out what the cash rent would have been if the estate were given out on cash rent The landlord's rentals are called 'Net Assets' In the words of the Punjab Land Revenue Committee of 1938, "Net assets of a tract represent what the land of the tract might ordinarily be expected to fetch in rent, less all costs incurred in earning that rent". In other words, net assets and normal rents less costs are synonymous and, as defined, they may be called landlord's net assets.

The land revenue demand of the State is fixed as a fraction of the 'net assets'. At first the Government charged as much as 80% of the net assets; later, according to Saharanpur Rules (1855), it was reduced to 50%, and now it is much less, i.e., 25% in some States.

Land revenue is fixed, in the first instance, for the entire village and is then distributed over the individual holdings. The village co-sharers are made jointly and severally responsible A co-sharer of standing, called Lambardar in the Punjab, undertakes to collect the land revenue and pays in the Government Treasury in his representative capacity He gets Panchotra (i.e., 5% of the total collection) as his remuneration. A section of the village community, or even an individual co-sharer beyond a certain limit, can insist on a separate assessment, or 'perfect partition' as it is called. In Agra, for instance, the co-sharers pay land revenue direct to the Government This is the usual pattern of settlement operations in Mahalwari areas, though there are slight provincial variations. The settlement itself is partly a judicial and partly a fiscal operation.

In the U.P. actual cash rents paid at the time of settlement are taken as the basis, and cash rent is the rule in the U.P. In the Punjab, however, rents are usually paid in kind under the batai system and hence probable cash rents have to be determined. A fair rate is ascertained on the basis of rents of typical holdings. The money value of the landlord's rentals received in kind is ascertained on the basis of average prices, average yield per acre, etc. In theory, there is joint responsibility for the payment but in actual practice each co-sharer's land revenue can be separately recovered. According to the Punjab Land Revenue Amendment Act, 1929, the Government charges 25% of the 'net assets' as land revenue.

Sliding Scale System. A new principle of assessment was

formulated in the Punjab at the time of the resettlement of Lyallpur district (now in Pakistan) in 1935. This is known as the Sliding Scale System. This was necessitated by the unprecedented fall in agricultural prices since 1930 The object of the new system was "to enable the Government to pitch its demand high enough to take into account the possibility of prices rising to the average level of the last 20 or 30 years, and meanwhile to adjust this demand at each harvest to current prices."[1] According to the old system, the standard rates did not change throughout the period of settlement; of course, remissions and relief could be given according to the character of crops. According to the new system, the revenue, as finally announced for a particular square, represents the maximum which the Government can take during the period of 40 years. But the Government will not take these maximum rates unless the general level of prices is at least as high as the commutation prices. If in any year the general price level goes up beyond the commutation prices, the revenue payers will be given the full advantage of the excess. But if in any year the general level of prices is lower, a remission in the revenue rates will be given the following year, proportionate to the difference.

Thus while the Government was "bound not to exceed the maximum rates as fixed" they would "give to the revenue-payer the full benefit of the fall in prices, however great that may be."

The strongest critic of the sliding scale system was the late Professor Brij Narain. He raised two objections against it: (i) That the system takes no account of the costs of cultivation; (ii) that it is based not on theoretical or paper net assets.

"When prices fall heavily," wrote Professor Brij Narain, "and costs less heavily it is possible that net assets may wholly vanish. But the sliding scale assumes that the Zamindar always enjoys net assets, provided the fall in prices is not 100 per cent."[2]

The Punjab Land Revenue Committee recognized this defect of the system. They agreed that in a period of falling prices any remission given in proportion to the fall in an owner cultivator's gross income would not be in proportion to the fall in his net income. "But when prices start rising again," they added, "the reverse process sets in and in time, it may be supposed, the two tendencies neutralise each other."[3] The recent enormous rise in prices seems to have vindicated this view of the Committee.

Ryotwari System ·

(a) Madras. The assessment of land revenue is preceded by village surveys, recording of rights, classification of soil according to productive capacity, etc. The productive capacity is esti-

1. *Ibid.*, p. 30.
2. *India Before and Since the Crisis*, Vol. II, p. 611.
3. Report, *op. cit.*, p. 51.

mated with reference to the yield of an ordinary crop whose money value is found out on the basis of the avarage price of the preceding 20 non-famine years. From the gross produce are deducted the necessary expenses in order to ascertain net produce. Allowance is also made for seasonal variations, unproductive areas, traders' profits, distance from the market, etc. Land Revenue demand is fixed at 50% of the net produce. Actually, however, much less is charged, a 50% rule is applicable to the best land. Some adjustments are made on account of the position of the villages, which are arranged in groups, and the nature of irrigation facilities available. That is why it happens that different rates come to be charged from similar soil. The land revenue is settled every 30 years but enhancement is not permissible unless prices have risen or the Government has made improvements like railway construction, etc. The maximum enhancement permissible is 18¾%.

(b) Bombay. Here again, as a step towards assessment, the whole process of delimitation of boundaries, determination of survey numbers and classification of soil is gone through. There is at first group classification of land based on a number of factors, e.g., configuration, climate, rainfall, standard of cultivation, labour supply and wages, variations in the cultivated area during the preceding 30 years, prices, crop yields, expenses of cultivation, rental values, etc. This is known as **anne-wari** classification, standard land being called 16-anna land. A standard rate of assessment is fixed with respect to such land but the standard rate is not to exceed 25% of the preceding 5 years' average rentals of the lands in question The assessment of each holding depends on its class. If it is 12-anna land then the rate applicable to it will be three-fourths of the standard rate.

The Bombay land revenue system was formerly empirical, a lot of discretion being given to the settlement officer. But now rental value has been legally fixed as the basis of the maximum assessment.

The Bombay Land Revenue Code (1939) imparts to the system of land revenue much-needed elasticity empowering the Government to charge the land revenue demand in any year on the basis of a change in agricultural prices. At the time of resettlement, land revenue can be enhanced but up to a maximum of 25% for the whole group and 50% in the case of an individual village or survey number. Improvements made by cultivator himself cannot be regarded as a ground for enhancement.

Basis of Assessment

From the rapid survey of land revenue system given above, it is clear that the basis of assessment is the rental, though it is called 'net assets' or 'net produce'. In other words, the assessing authority takes into consideration what the landlord receives from a tenant or what he would have received if he gave out the land to somebody else for cultivation. No heed is paid to the

expenses of cultivation or the profits of cultivation. This is very unfair. In India, a country of growing population pressure, where avenues of employment are limited, and where an overwhelming majority of the people must fall back on land as a means of livelihood, the rents will naturally be high. They are much higher than what tenants could afford to pay if they carried on agriculture as a business proposition rather than as a mode of living. It is not, therefore, fair to take rental as the basis of land revenue.

When agricultural prices fall, as they did in the early thirties, the cultivator undergoes a positive loss. His income does not cover even the wages of working members of his family. They have thus to slave for the benefit of the landlord. But in a slump, apart from remissions and suspensions and temporary relief, the sliding scale system, introduced in the newly settled areas of the Punjab, should considerably lighten the land revenue burden on the small landholder. In Bombay, too, there is such a provision.

Incidence of Land Revenue

Is the land revenue burden excessive? The defenders of the policy of Government have argued that the burden is far from heavy. Historically the charge is considerably less now than it was either under the Hindu or the Muslim rulers. Thus Manu took from 1/12th to 1/16th of the **gross produce**, and in "times of war or other public calamity" as much as ¼th.[1] The share was more under Akbar. The Sikhs in the Punjab took even more. As a rule the demand under the Sikhs varied from two-fifths to one-third of the gross produce. The British fixed the maximum demand at one-half of the **net assets**, though actually it came to less than 30 per cent of the rental. Measured in terms of gross produce, the average charge for the three years ending 1936-37 was only 6.7 per cent. "If we were to take the last three pre-depression years," wrote the Punjab Revenue Committee (1938), "the proportion would probably be less than 1 per cent. Compare with this the 33 to 40 per cent taken by the Sikhs a hundred years ago."[2]

The average land revenue per cultivated acre in the Punjab came to Rs. 1-9-2 for three years ending 1936-39.

The following figures[3] give incidence of land revenue per cultivated acre and per head of population in 1939 in some important provinces of India:

1. Taxation Enquiry Committee Report (1924-25), p. 39.
2. Report, p. 11.
3. Taken from Wadia and Merchant: *Our Economic Problem*, p. 246.

INCIDENCE OF LAND REVENUE IN 1939

	Province	*Per cultivated acre*			*Per head of population*		
		Rs.	As.	P.	Rs.	As.	P.
Bengal:							
	Permanent Settlement	1	4	0	0	12	0
	Temporary Settlement	3	4	0	0	11	9
Oudh:							
	Permanent Settlement	1	6	0	1	15	0
	Temporary Settlement	1	15	0	1	9	0
Punjab		1	15	0			
Bombay :							
	Ryotwari	1	11	0	1	15	0
Madras							
	Ryotwari	2	8	0	1	15	0
	Zamindari	1	6	0	0	14	0

The incidence at present cannot be considered higher in view of the higher agricultural prices prevailing now. Thus the supporters of the present system argue that (1) the burden of land revenue per acre as well as per head of population is extremely low and, as compared with what it used to be in the past, it is insignificant; (2) it is asserted that even if this burden were abolished it would go to a class of rent-receivers and would not benefit the actual cultivator; (3) it is suggested that the prosperity of the cultivator increased under British rule while the tax burden was reduced; and finally (4) that the land revenue is not a tax but rent, and as such it does not enter into the cost of production and does not affect the prosperity of the cultivator.

Whether the land revenue is a rent or tax is a controversial issue which we shall examine presently. As regards the other arguments given to support the thesis that land revenue is not a serious burden on the Indian peasantry, the following reply may be given:—

(i) Under the Hindu and the Muslim rulers, the land revenue was fixed and collected in kind. Therefore its burden varied with the capacity of the assessee to pay. At present even though remissions and suspensions are granted, the charge being fixed in cash, becomes very oppressive when prices are low. The amount and methods of collection now are much more rigid than they used to be under the Indian rulers.

(ii) The pressure on land considerably increased during the British period due to increase in population and decay of handicrafts. Even after a high percentage of gross produce was taken away by Indian rulers, the total produce per family being large, the residue was enough to maintain them in their customary comforts. Now the land per family is very small and hence their total produce is hardly enough to maintain them for a year. Even a small portion of this produce, if taken away, may impose painful burden on the family resources.

(iii) Even if we accept the proposition that the present burden is lighter than it used to be several hundred years ago, it does not justify the present burden if it is an unjust one. We must not apply the 16th century standards of justice when we are living in the 20th century.

(iv) To say that the benefit of abolition will go only to the rent-receivers will hardly stand examination. Many land revenue payers or peasant-proprietors will be directly and immediately benefited from any reduction or abolition of this charge. As regards the big absentee landlords, the burden was too light rather than too heavy. They should have paid higher amount not as land revenue but as tax on agricultural incomes.

(v) As regards the increase in the prosperity of cultivators, this is not a definitely established fact. Opinions differ as to whether the average cultivator today enjoys a more wholesome food, clothing, and health than he used to in centuries gone by.

(vi) The real reason why relief is denied to the peasant-cultivator is that, if uneconomic holdings are exempted from land revenue, the effect on Government finances will be disastrous.

Whatever be the nature of land revenue, it must be adjusted to the taxable capacity of those who pay it, and it must be levied in accordance with the well-known canons of taxation. The most important canon, viz., equity, will be satisfied if uneconomic holdings are exempted from land revenue and if the principle of progression is introduced. Further, it must be made elastic by making it adjustable to climatic conditions and price changes. According to the Taxation Enquiry Commission (1953-54), the incidence of land revenue is no longer burdensome.

Tax or Rent ?

Land Revenue. Whether the land revenue is a tax or a rent is an old controversy and has little practical bearing on matters of policy. Baden Powell has called it a profitless "war of words". Even if we agree that the State in India is the universal landlord, and hence the land revenue is a rent, this does not justify the imposition of this charge without reference to the welfare of the people. Even the landlord, if he is enlightened, may exempt uneconomic holdings from rent. When the landlord is the State, the welfare of the subjects, and not any theoretical right to the imposition, should be its primary consideration. If the small holder requires relief, he must get it whether the payment he is making as land revenue is theoretically regarded as a tax or a rent.

Whether land revenue is rent or tax will depend on the answer to the question: "Who owns land?" It will be rent, if the State is the owner, and a tax, if people are the owners. There is little evidence to prove that the State in India is the landlord. The State in India cannot base its claim to ownership of land in history. According to Wilson, "The proprietary right of the

sovereign derives no warrant from the ancient laws or institutions of the Hindus and is not recognised by modern Hindu lawyers as exclusive or incompatible with individual ownership. As for the Muslim law, we have got the authority of Col. Galloway: "The soil was the property of the cultivators as much as it could be. Law gave no power, policy gave no motive to remove him, to disturb him so long as he paid his taxes....The right of the Indian husbandman is the right of possession and transfer....In what respect, then, is his right of property inferior to that of the English landholder?"

Even in modern times, the State in India has not claimed the right to ownership of land. As Baden Powell has pointed out with regard to Zamindari tract, Government has definitely stated that property right in the soil "has been declared vested in the landholders". In Ryotwari districts, the State has a "residuary right" with regard to vacated and waste land, but has no power to eject a cultivator "except as a result of process in default of revenue payment". "Hence," he concludes, "the 'recognized ownership' of Government does not exist at all in a large part of India, and in other parts only in a very qualified manner."[1] State being not the landlord, land revenue cannot be called a rent.

Land revenue contains features of a tax as well as of rent. Since it is a compulsory levy of the State periodically collected, it resembles a tax. But since almost[2] all lands have to pay it and it has no element of progression, and in some States it is in addition to a tax on agricultural incomes, one might think it as rent. "Perhaps it would be nearest to say," remarks Vera Anstey, "that it is a tax on rent, and that, as a large proportion of the actual cultivators in India is in a sense 'landowners', there is no doubt that the Government is receiving as revenue an income that would otherwise go into their pockets."[3]

But whether it is a rent or a tax, it is a charge made by the State and hence it must be adjusted to the cultivator's "faculty to pay" and must be made to conform to the well-known canons of taxation.

Does the Indian Land Revenue Satisfy the Canons of Taxation?

Equity, Certainty, Economy, and Convenience, Elasticity, Productivity and Simplicity are the well-known canons of taxation. In the case of land revenue, the amount to be paid is certain but the basis of assessment is not clearly understood. It thus lacks Simplicity and only partially satisfies the canon of Certainty. Convenience is satisfied because land revenue is collected in instalments and at the harvest time. The land revenue establishment has a big salary bill but it cannot be counted as cost

1. Quoted by V. Anstey, *op. cit.*, p. 375.
2. Some lands are revenue-free grants.
3. V. Anstey, *op. cit.*, p. 376.

of collection, as the revenue staff performs other administrative duties too. Hence 'Economy' canon cannot also be regarded as infringed. The canon of Productivity is satisfied as the yield of this tax is very large and is the mainstay of the State Governments. It, however, lacks Elasticity, for either it is fixed in perpetuity, as in Bengal, or for 30-40 years as in other States. In Bombay and the Punjab, however, a measure of elasticity has been imparted to land revenue by the sliding scale system. The most important canon, viz., Equity, is violated in the fact that even uneconomic holdings have to pay land revenue and there is no progression. The land revenue is, therefore, oppressive and iniquitous, on the whole.

Is Land Revenue Rent in the Ricardian Sense?

According to Ricardo, rent is surplus above costs. But in India most of the landholdings are uneconomic leaving no surplus. Land revenue in such cases impinges on the barest means of subsistence. Not to speak of a surplus, even the minimum costs are not recovered from income from land. If the farmers were to calculate the wages of those members of the family who work on the field and add them to costs of cultivation, agriculture, in normal times, will be in most cases a losing proposition.

On the other extreme are the big landlords on whom the land revenue sits very lightly. In their case it may be much less than the economic rent. In between these two extremes land revenue may coincide with the Ricardian rent but that would be by accident and not by design. Actually there seems to be no necessary connection between our land revenue and the Ricardian rent.

Reform of Land Revenue System

The Indian land revenue system has evoked devastating criticism both from experts and lay politicians. This charge largely rests on the maxim: "An old tax is no tax." The main objections to the present system of land revenue are:

(a) The burden is oppressive on the majority. Further, the incidence of land revenue is not uniform and the inequalities do not bear any relation to the productive capacities of the land. For instance, in the West Bengal, the incidence on permanently settled areas is 9 annas, whereas in other areas, it is Rs. 2 nearly. Due to the rise in agricultural prices, however, since the Second World War the burden of land revenue has ceased to be excessive. The incidence is now quite light and several States have levied a surcharge.

(b) It violates the canon of equity as there is no minimum exemption and no progression. Recently, however, many States have introduced agricultural income-tax on high incomes besides the land revenue.

(c) The basis of assessment is unjust and obscure. No

profits and not rentals, should be the basis. But no allowance is made for the labour of the cultivator and his family.

(d) The system lacks elasticity as the land revenue is fixed either permanently or for a long period of 30-40 years.

(e) There is rigidity in collection.

(f) The fundamental defect is that the land revenue is assessed not on the actual tiller but on those who have turned absentee landlords. This has given rise to a vicious tenancy system.

As for the reforming of the present system is concerned, as already said, whether the land revenue is a tax or a rent is a matter of no consequence. Various suggestions have been made to improve the present system. Usually two objects are kept in view in this connection: (i) Relief to the holders of very small holdings; and (ii) more equitable distribution of the burden of taxation as between the larger land revenue payers and payers of other forms of taxes.

The various suggestions for reform may be indicated as under:—

(1) Abolition of the Permanent Settlement. This we have already considered and approved.

(2) Some suggest the abolition of the land revenue as such and substitution in its place of an income-tax on incomes derived from agriculture. Financial considerations make it impossible to carry out this reform, although income-tax on higher agricultural incomes is being levied in some States in addition to land revenue.

(3) Others would like to apply the principles of income-tax to land revenue, i.e., exemption of small holdings and imposition of a gradual rate on large owners. This is not feasible because it will mean drastic reduction in State revenues.

(4) Finally, some writers expose the defects of the manner in which net assets are calculated, especially in the Punjab, and would like to make this estimate more scientific. Net profits should be so calculated that all the expenses of the cultivator including his own wages and those of his family are deducted from his gross income before land revenue is assessed.

(5) Replacement of the Zamindari system by the ryotwari system has been suggested so that land revenue may be assessed directly on the tiller. It is good that the Zamindari system has been abolished or is being abolished in almost all States.

One school of thought suggests the complete abolition of the land revenue. The abolition of land revenue aims primarily at relieving the small holder of the burden of this payment. In this connection, several questions have to be carefully considered before any decision can be taken. They are:—

(i) It is desirable and justifiable on political, economic, and ethical grounds that the small holder should be entirely freed from making any direct contribution to the revenues of the State?

(ii) If he is given this relief, how far will it improve his standard of living or methods of production?

(iii) What will be the extent of the financial loss to the Government? Could this loss be made good by alternative sources? If not, what are to be the likely consequences of this curtailed Government expenditure on the welfare of the people—including the exempted small holders.

Let us consider these questions.

(i) The land revenue assessment and collection necessitate the keeping of records of land, its produce, property rights, etc., and these records are of great value to the administrator and the economist. But these are only incidental advantages. The system must be justified on more fundamental grounds. The Punjab Land Revenue Committee drew attention to the ethical and social aspect. The landowner, especially in the Punjab, enjoys special privileges[1] and protection given by the State. Hence he should make some contribution to the State treasury by virtue of his being a landholder. One witness[2] asserted that the small holder would not like being exempted from the land revenue charge which enhances his self-importance, dignity, and **izzat**. This appears very doubtful. Small holders would jump at the idea of exemption. As regards the "privileges", the protection of the State to a class liable to be exploited by the still more privileged classes cannot be put forward as a justification for imposing a tax on the former, if they have no capacity to bear this burden, and if other classes are not taxed to the same degree. Hence land revenue charged from the small holders cannot be justified on economic, political or ethical grounds.

Regarding No. (ii) above, Mrs. Anstey holds that "judging from past experience, it appears likely that a part of the increased income would be squandered on increased expenditure on ceremonies and that the rest of it would be swallowed up by an increase of population, rather than in any improvement in the standard of life or methods of cultivation."[3] This, again, is a

1. "The land of these agriculturists cannot be sold in execution of a money decree or mortgaged to a non-agriculturist for more than 20 years. A landowner cannot be evicted by a civil court without the intervention of the revenue authority, and he is entitled to retain enough land for the maintenance of himself and his family. His plough, cattle, implements, and seeds cannot be attached. If he is sued and his interest charges exceed certain statutory limits, they can be reduced. The burden of proving the consideration is on the money-lender nor can a decree be passed against him for more than twice the principal. When he dies his ancestral land is not liable for the payment of his debts unless charged upon it. Finally, under an Act of 1934 Conciliation Boards are being set up all over the province to settle his debts." Report, p. 74.

2. Written memorandum by Sir G. de Montmorency. Report, p. 176.

3. Anstey, *op. cit.*, p. 377.

very flimsy argument. Does the Government, while considering taxes on other classes of population, probe into the way the money would be spent if the tax is reduced or abolished? Certain social ceremonies are as important to the poor cultivator as are various kinds of recreations and social expenditure to the better-placed classes. Of course the poorer sections should be instructed as to the manner in which they can get the best advantage from their small incomes. This should be done by extending educational facilities—not by taking away a part of their meagre income in the form of a tax.

(iii) Finally, we come to the financial consideration. If land revenue is abolished and an income-tax is imposed on agricultural incomes with the usual exemption limit, the revenue of the Government will fall very seriously. Even from the bigger landlords the income-tax charge will bring much less than revenue charge. The latter is roughly 25 per cent of their net income from land. The average income-tax rate will be much less. Even giving exemptions to small holders without abolishing the charge on the larger landholders will mean a serious reduction in revenue. The Punjab Committee estimated that if those who paid less than Rs. 500 were exempted, the total "land revenue will be reduced from Rs. 4½ crores to Rs. 30 to 40 lakhs."[1] Even if incomes up to Rs. 250 were exempted, the Committee estimated the loss at Rs. 2½ crores. In terms of land revenue, if only those who pay Rs. 10 a year or less are exempted, the loss to the government will be to the tune of Rs. 78.6 lakhs. Thus while Rs. 10 a year will make no significant change in the economic position of the small holder, it will create a serious gap in the finances of the government and will curtail useful activities of the government unless this gap can be filled up from some other sources. "In a poor country like India," in the words of the Punjab Committee, "the amount of revenue that can be raised from the better-to-do class is not very large, and the process commonly known as 'soaking the rich,' which is fruitful enough in a wealthy country like England, has only a very limited scope in India. If any considerable sum has to be raised, it cannot be easily done without spreading the fiscal net over the whole community and levying a small sum on as many people as possible."[2]

We are inclined to agree with this view. Unfortunately, it is impracticable to relieve the small holder from the entire burden of land revenue. We, however, endorse the recommendation of the Punjab Committee in which they recommended[3] relief to the owner-cultivator by reducing his charge by 25 per cent after assessment at the usual rate.

Taxation Enquiry Commission 1953-54 and Land Revenue

The Taxation Enquiry Commission was appointed by the

1. Report, p. [illegible].
2. *Ibid.*, p. 73.
3. *Ibid.*, p. 64.

Government of India in April 1953 under the chairmanship of Dr. John Matthai, to examine, inter alia, the system of land revenue in India. The Commission observe that recent developments after Independence have set new tasks to the administration of the State, while others have involved significant changes in the agrarian pattern of the country. Two of these developments have been the political integration of the former princely States, and the important measures of tenure and tenancy reforms undertaken by State Governments. In the princely States, the degree of political and administrative efficiency had varied greatly and there was diversity in their land revenue systems and tenancy laws. This calls for measures to create some sort of uniformity in these matters. Again, the abolition of the basic intermediaries has brought into forefront the questions of settling the rate of land revenue for the individual cultivators, and of fixing the agency to be employed by the State for the purpose of collecting land revenue, for compiling village records and for discharging other administrative functions. Still again, resettlements have fallen due during the last twenty years in the non-permanently settled areas.

The Commission held that in view of the financial needs of the State Governments for implementing their development scheme, it is difficult to envisage any real substitute for land revenue. The States realise about Rs. 70 crores from this source and no alternative method is likely to yield an equivalent amount. But the Commission feel that while there are bound to be differences in the land revenue systems of different States, it will be both advisable and feasible to aim at a minimum degree of uniformity in more basic matters like nature of tenure, manner of initial fixation of assessment, method of revision of assessment, etc. The Commission have, therefore, made the following recommendations with regard to the future pattern of land revenue:

1. Initial settlement including survey and classification is indispensable and should be undertaken in all areas where one or more of these operations remain to be conducted. No particular basis for determining land revenue at the initial settlement is recommended. The basis in operation in the adjoining State or area could be adopted.

2. The basic pattern of settlement and revision while largely similar to the existing ryotwari pattern should make a departure from it in significant respects. Revisions of settlement should be within strictly defined limits and should be based not on small units and local prices but on the State as a whole or within the State on homogeneous regions.

3. Within the limit set for revision, the standardized assessment should continue indefinitely. The State Government should not levy surcharges over and above it, and all surcharges of the standardized assessment should be by local bodies and for local service.

4. The present levels of assessment should be first standardized over the State as a whole and the standardized assessment then revised State-wise, at reasonable intervals.

5. Once assessment levels have been standardized, land revenue should be revised once in 10 years with reference to changes in the price-levels; a change in price by 25% in either direction should not call for any adjustment in land revenue demand. If prices rise by more than 25%, land revenue should be increased by a minimum of half anna in a rupee to a maximum of two annas in the rupee. If prices decline, the reduction should be effected by a minimum of one anna in a rupee to a maximum of four annas in the rupee.

6. From land revenue, an amount of not less than 15% should be earmarked for local bodies, the allocation to be made out of the revenue collected from the area of a particular body.

7. It may be possible to collect land revenue in kind from the co-operative societies. The present administrative machinery for the collection of land revenue has been evolved through years of experience and on the whole has been efficient. There is no objection to collection of land revenue being entrusted to the village panchayats on a commission basis. This might be done wherever feasible. Hereditary village officers should be replaced by stipendiary village officers.

CHAPTER XVII

Cottage and Small-Scale Industries

A cottage industry is one which is carried on wholly or primarily with the help of the members of the family either as a whole-time or part-time occupation. On the other hand, a **small-scale industry** is operated mainly with hired labour, usually 10 to 25 hands and usually employs mechanised equipment. Recently the Small-Scale Industries Board has adopted a working definition according to which small-scale industries comprise all units or establishments which have a capital investment of less than Rs. 5 lakhs irrespective of the number of persons employed. In the preceding chapters, we have studied Indian agriculture and various economic problems facing it. We shall now take up the study of Indian industry and its problems. India's industrial past has a specially heartening message for us in the present. India had attained a very high position in the world of commerce and industry when the rest of the world was still in a semi-civilized state. "At a time when the west of Europe, the birth-place of modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsmen."[1] Edward Thornton also remarks in a similar vein: "Ere yet the pyramids looked down upon the Valley of the Nile, when Greece and Italy, those cradles of European civilization, nursed only the tenants of wilderness, India was the seat of wealth and grandeur."[2] "Egyptian mummies dating from 2000 B.C. have been wrapped in Indian muslin of the finest quality."[3] Most of these ancient Indian products were turned out by cottage and small industries. Even today India remains mainly a country of small-scale production.

1. Report of the Indian Industrial Commission, 1918, p. 1.
2. Thornton, Edward—*History of British Empire in India*, 1841, Vol. I, p. 3.
3. Ranade—*Essay on Indian Economics*, p. 171.

Role of Small-scale Industries

It is wrong to think that large-scale industry can kill small-scale industry altogether. As Prince Kropotkin remarks: "Only a superficial and bookish acquintance with industry could permit the economists to assert that law (necessary disappearance of the small industry) for half a century without attempting to prove it. The petty trades are not killed and cannot be killed; like Proteus they ever change their aspect."[1]

Even in countries which are the classic lands of big business, small-scale industry occupies a definite and important place. In France, more than 99 per cent of the industrial establishments employ less than 100 workers each. In Germany, 12.6 per cent of the total population derive their livelihood from handicraft work. In the highly industrialized city of Birmingham, at least 50 per cent of the industrial establishments are small-scale employing less than 50 workers.[2] In Japan, 53 per cent of the industrial population still gains its livelihood in small undertakings employing less than five workmen.[3] In Belgium, Holland and Switzerland, several types of goods are manufactured on the small scale. In the U.S.A., "it has been estimated that small business makes up 92.5% of the U.S. business establishments, employs 45% of the country's workers and handles 34% of the volume of business."[4] In almost every country, the small-scale industry is alive and kicking and plays a very important role.

The case for the development of small-scale industries is particularly strong in underdeveloped countries like India. These small-scale industries satisfy many of the **investment criteria** that one often prescribed for the planned development of the country.

Firstly, small-scale industries are **labour intensive,** i.e., labour investment ratio in their case is quite high. A given amount of capital invested in small-scale industrial undertakings is likely to provide more employment, at least in the short run, than the same amount of capital invested in large-scale undertakings. This is a very important matter for our country where millions of people are either unemployed or under-employed. It is estimated that there are about two crore persons engaged in cottage industries. The handloom industry alone employs 50 lakh people or nearly as many as are employed in all organised industries including mines and plantations. Judging from the record of large-scale industries during no less than the last 60 years, such industries have been able to provide employment to about 4 million workers only. Thus, it would only be an idle dream to ex-

1. Quoted by Suhasrabuddhe in a paper read in the Industrial Conference in 1912.

2. Radha Kamal Mukerjee—*Economic Problems of Modern India,* 1941, pp. 22-25.

3. Hubbar—*Eastern Industrialisation and its Effects on the West,* 1933, p. 114.

4. Indian Fiscal Commission (1949-50), Report, p. 101.

pect that large-scale industries will be able to solve our stupendous **unemployment problem** in the near future. So if a solution of the problem is earnestly desired, the small-scale industries be given a paramount role in the planned development of the country. Further, the encouragement of small-scale industry would serve to counteract the **seasonal unemployment in agriculture** and thus to utilise labour which might otherwise go to waste.

Secondly, small-scale industries are **capital-light,** i.e., they need relatively smaller amount of capital than that required by large-scale industries, since the capital output ratio is much smaller in the case of the former. Thus, one of the great advantages of small-scale industries is that they make possible economies in the use of capital. As capital is very scarce in an under-developed country like India, it may be used to greater advantage in the early stages of development, if it is used to expand transport and other public utilities, irrigation and other agricultural requirements and those forms of large-scale industry where the advantages are outstandingly great—notably iron and steel, chemicals, heavy engineering. On the other hand, capital should not be used to any great extent in those branches of manufacturing such as weaving that can be carried out fairly well by small-scale industries which are likely to be of low capital intensity.

Thirdly, besides making possible economies in the use of the existing stock of capital, small-scale industries may **call into being capital that would not otherwise have come into existence.** The spreading of industries over the country-side would encourage the habits of thrift and investment in the rural areas. Moreover, the enterprising small manufacturer has to scrape together capital where he can find it. He often manages to get it from relatives and friends. This capital probably would never have come into existence as productive capital, had it not been for the small enterpriser. The equivalent would not have been invested in government bonds, would not probably have been put in banks or would not have been lent for large industries, etc.

Fourthly, the peculiar attraction of small-scale industries lies in their being **skill-light.** A large-scale industry calls for a great deal of management and supervising skill—foremen, engineers, accountants, and so on. Like capital, these skills are also very short in supply in our country, and it is important to economise as much as possible in their use. Small-scale industry provides a way of doing this and at the same time provides industrial experience and serves as a training ground for large number of small-scale managers, at least some of whom may develop the capacity for managing large-scale undertakings. Moreover, it is not only managerial and supervisory skills that are in short supply in the country but many types of skilled labour as well. In India, with a long tradition of highly artistic products of cottage industry, there exists a considerable 'fund' of local and traditional skill. Small industry may be better able than large industry to

take advantage of these existing traditional skills with minor adaptation.

Fifthly, small-scale industries are **import-light**, i e , they use a relatively low proportion of imported equipment and materials as compared with the total amount of capital used in them. Large-scale industries, on the other hand, require huge imports in the form of equipment and materials, upsetting the country's balance of payments thereby. A low import intensity in the capital structure of the small-scale industries **reduces the need for foreign capital or foreign exchange earnings**, thus obviates balance of payments difficulties later and currently retains within the country a large part of whatever induced effects may materialise.

Sixthly, small-scale industries are of the "quick-investment type," i e., those in which the time-lag between the execution of the investment project and the start of flow of consumable goods is relatively short. In a developing economy with a high inflationary potential and need for a rapid rise in the living standards, the importance of such quick-investment type industries can hardly be exaggerated. The anti-inflationary requirement and the requirement of development are often in conflict, but a compromise can be found in the small-scale industries which have a **fruition-coefficient** (i.e., a high ratio between planned output and investment) and also a short **fruition-lag**.

Seventhly, the development of small-scale industries will bring about **dispersion or decentralisation** of industries and will thus promote the object of regional development. A major drawback in the industrial structure of the country in that regional distribution of industries is exceedingly uneven On the one hand, there is a disproportionate growth of large-scale industries in a few areas, and on the other, a virtual absence of such industries in the greater part of the country. The development of small-scale industries will tend to correct this uneven distribution of industries in the country.

Eighthly, small-scale and cottage industries have the additional advantage that. with decentralised industries, they secure a **more even distribution of income and wealth**. The development of large-scale industries tends to concentrate large incomes and wealth in a few hands, which is undesirable from the social point of view, in that they involve exploitation of man by man and also create vested interests which put obstacles in the way of the economy marching towards its goal of socialistic pattern of society.

Lastly, by carrying the job to the worker, small-scale industries can overcome the difficulties of territorial immobility. Moreover, unlike large industries, small-scale industries do not create problems of slum housing, health and sanitation, etc., and the attendant disease, misery and squalor.

Several cottage and small-scale industries are such which can be developed as subsidiary or complementary. In such cases,

the small-scale industries may take up the production of goods in the semi-finished stage and the large-scale industries may assemble them or make them into finished goods. Or, the cottage and small-scale industries may manufacture small parts, such as cycle parts. The third possibility is that the semi-finished goods may be produced on a large scale but several types of finished goods may be made in small-scale establishments, such as agricultural implements and cutlery from iron and steel, garment-making from mill cloth, house hold utensils from sheet metals, etc. Yet another possibility is in respect of small engineering workshops for repairs, servicing, etc., which are subsidiary to large-scale industries A proper policy of co-ordination between large-scale and small-scale industries will be necessary for their success. Reservation of sphere, levy of cess on the large units, adequate research, technical facilities, laying down of standards of quality, assured supply of raw materials, etc, are other measures for such development of small-scale industries.

Causes of Survival

When large-scale industry has not been able to squeeze the small industry out of existence in the countries in advanced stages of industrialization, it is not difficult to understand the persistence of the cottage industries in India The causes that account for the survival of the cottage industries can be briefly stated thus:

(1) Inertia and stay-at-home habits of the cottage worker have kept him moving in the old groove. This, coupled with the lack of alternative openings, has made the worker either unwilling or unable to leave his hereditary occupation.

(2) Prevalence of the caste system is responsible for the perpetuation of the caste occupations even though they have ceased to be paying.

(3) Working in one's own home assisted by the loving hands of the members of one's own family and working at one's own will have got their own attractions. The atmosphere is very congenial.

(4) Agriculture, which is the occupation of about 66 per cent of our people, affords at best only seasonal employment and there is enforced idleness for three or four months in the year among agriculturists. There are several supplementary industries which can be dovetailed with agriculture. They have, therefore, been continued as "second string to the bow."

(5) There is still in India a large number of people who appreciate and are prepared to pay for a work of art. Their patronage has arrested the decline of many an old Indian craft.

(6) There are certain articles the demand for which is local,

fitful, or too limited, and they, therefore, do not lend to machine production. They have to be produced by cottage industry.

(7) The ability of the cottage worker to introduce an element of variety to suit the tastes of different shades of customers has stood him in good stead and saved him from extinction.

(8) The isolation of the village has not yet been completely broken and many village crafts still thrive in places inaccessible to the machine-made goods.

(9) Some artisans have adapted themselves to the new conditions and have saved their craft by taking advantage of new materials or new tools. The weaver has, for instance, taken to the mill-made yarn and the flying shuttle.

(10) The Indian tastes in recent time seemed to have veered round to some extent, and hand-made goods are again in favour. Indian sentiment now favours and strengthens the "buy-India" campaign.

(11) The Central and State Governments, too, in recent years have given liberal grants for fostering the cottage industries. The Indian National Congress has made the development of cottage industries its special concern.

(12) Modern trends of technological progress are redressing the balance in favour of certain types of cottage and small-scale industries. Hence in modern times the relative position of cottage industries is being strengthened by technical developments.

In recent times, small-scale industry has been helped specially by some new favourable factors, e.g., the development of electric power which can be supplied in small units, growing taste of the richer classes for artistic and luxury goods, the growth of the co-operative movement and wide diffusion of technical knowledge. We thus find successful small industries existing side by side with the large-scale industry. They can be complementary rather than competitive.

Handicaps and Remedies

A study of the Indian cottage industries reveals that they are not in a happy position. Some of them are dead, others languishing and still others struggling to keep themselves above water.

The following are some of the difficulties experienced by the Indian cottage industries:

(a) Lack of financial facilities and the poverty and indebtedness of the craftsman.

(b) Absence of organized marketing which throws the craftsman completely at the mercy of the middleman.

(c) Inefficient methods and high cost of production leaving a meagre margin of profits.

(d) The inefficient human factor due to illiteracy, ignorance, and conservatism of the craftsman.

A comprehensive plan calculated to remove these defects is necessary to bring about a regeneration of our cottage industries. The following measures are indicated:—

(1) Spread of education, general and technical, to fight ignorance and conservatism of the craftsman.

(2) An ambitious campaign for his economic and social uplift is essential.

(3) He should be supplied better and more efficient tools on a hire-purchase system and raw materials of the requisite quality at reasonable rates and on easy terms.

(4) New and attractive designs should be brought to his notice and peripatetic parties should be regularly sent out to guide him and give necessary demonstration on the spot.

(5) Industrial exhibitions should be more frequently held so that the products of the cottage industries may get the necessary publicity, and the gulf between the producer and the consumer bridged.

(6) Emporia and marketing depots should be set up to relieve the craftsman from the difficult task of marketing so that he may concentrate on production only.

(7) The crux of the whole problem is marketing and finance and the salvation of the craftsman seems to lie in Co-operation which can lift him economically, morally, and educationally. Besides providing him with the necessary financial assistance and aid in marketing, Co-operation will give him lessons in self-reliance and self-government. Some progress in this direction has already been made. Taking all the States together, the number of industrial co-operatives rose from 3,785 in 1949 to 5,305 in 1950. Their number was expected to rise to 8,000 by 1955.

(8) Through a vigorous system of research, we must raise his technical efficiency to such a height that he may always be ahead of the machine and not behind it as he is now to his utter ruin and embarrassment.

(9) Cottage workers may be organised into guilds. Such guilds have already been set up in Kashmir.

(10) Marketing and financing companies should be set up with government assistance to provide financial and marketing facilities.

(11) A very necessary step seems to be the integration of the cottage industries with modern large-scale industries. The raw materials can be worked in rural areas in small and medium-sized units and then brought in a semi-finished state to the big urban industrial centres.

Special efforts were made by Governments in Europe to

encourage small industries. In India, too, since 1935, the Central and the Provincial Governments have been spending some money for the revival and development of cottage industries. But such efforts are not commensurate with the requirements of cottage industries scattered throughout this sub-continent. In view of the large number of people depending on our cottage industries and the social and economic advantages expected from their development, and the artistic value of their products, a special effort seems to be called for.

Conditions for the development of small industries are especially favourable in India. Large factories require large capital which we lack; large factories use labour-saving devices but we have a large population waiting for employment. Small and scattered holdings in India do not provide whole-time employment to our rural population. Hence cottage industries must be developed to fill up the gaps. The development programme should include: (a) reservation of sphere of production, (b) non-expansion of the capacity of large-scale industry, (c) imposition of cess on products of large-scale industries, (d) arrangements of raw material, and (e) co-ordination of research, training, etc.

Government Policy and Measures.

It is gratifying to see that in recent years the attitude of the Government towards cottage and small-scale industries has undergone a welcome change and that concrete steps have been and are being taken to develop such industries in the country. The new helpful policy was originally announced in the Industrial Policy Statement of the Government of India in April 1948 and it was restated in 1956. In the Five-Year Plans, it went further—such industries being assigned a central place in industrialization as well as in rural development.

Here are a few specific measures which have been and are being taken.

In the first place, several appropriate boards or organisations have been established. These have been given large powers of initiative and provided with adequate funds to function effectively. Each one of them has its own sphere to look after. The Cottage Industries Board was the first to be set up. This Board has by now practically completed a review of the existing cottage industries in the country with a view to developing further. The All-India Handicrafts Board, constituted in November 1952, has the object of improving and developing production of handicrafts and of promoting their sale at home and abroad. For handloom industry, by far the biggest cottage industry of the country, an All-India Handloom Board has been set up.

Financial assistance was given to State Governments for the setting up of common plants for dyeing, finishing and processing; for the supply of important technical implements and for marketing and sales depots. The Khadi and Village Industries Board,

started in 1953, is the chief body for the village industries. There was also set up in 1954 a Board for small-scale industries. In 1954, a Special Development Commissioner for Small-scale Industries was appointed at the Centre. The Central Government gives grants to the States of nearly Rs. 5 crores a year for assisting these industries.

No less important are the new principles which the Government have adopted for the development of these industries. They have accepted, firstly, the principle of levying a cess on the corresponding large-scale industries to assist cottage and small-scale industries, and secondly, the principle of affording temporary protection to such industries by reservation of spheres of production or through a subsidy. Accordingly, a cess of one pice per yard on mill made cloth has been levied which is expected to yield Rs. 6 crores a year. Also certain lines of production have been reserved (such as, in the case of sarees mills can produce up to 66% of their previous production).

The demand for the products of such industries is also sought to be promoted by such means as holding of exhibitions, and opening of sale-depots and emporia. The Government gives financial assistance for this purpose. The problem that the price of hand-made goods is often higher than the price of factory-made goods of comparable quality is sought to be solved by appropriate excise duties imposed on factory products to maintain desired price parities with hand-made goods in the concerned cases.

Finance being one of the most serious difficulties of cottage and small-scale industries, efforts are being made for extending credit facilities for them. Accordingly, State Financial Corporations have been set up in almost all States. By a recent amendment of the R. B. Act, the Reserve Bank has also been enabled to provide funds to State Co-operative Banks and State Financial Corporations for the production and marketing of products of such industries. The State Bank has liberalised its procedure for advances to small-scale industries and has introduced a scheme for provision of co-ordinated credit to small-scale industries. Credit facilities to industrial corporations are also being given by the State Bank. The Government guarantees loans given by banks to small industries. The scheme which has been from January 1963 extended to the whole country, is operated by the Reserve Bank on behalf of the Government of India. Central loans are given to State Governments for establishing industrial estates. From its inception in 1960 up to the end of March 1964, the Guarantee Organisation issued 8,571 guarantees for a total sum of Rs. 32.8 crores.

Recently, the Government also greatly liberalised their store purchase policy. The products of such industries are given preference in spite of higher price up to a certain percentage. Use of 'khadi' has been ordered in the case of several kinds of Government-supplied uniforms.

In 1953, the Government of India invited a team of international experts which submitted its report suggesting an integrated programme for the development of small-scale industries. The Government accepted its recommendations, the chief among them being the establishment of (a) four Regional Institutes of Technology for small-scale industries, (b) a small Industries Corporation, (c) Marketing Service Organisation, and (d) several multi-purpose institutes which would assist such industries in improving their techniques of production and management. Four regional institutes at Bombay, Calcutta, Delhi and Madras, 16 major institutes, 5 branch institutes and 60 extension centres have already started functioning (1962-63).

According to a Japanese team of experts, visiting India in 1959, the Government policy should be to guide and encourage and not merely to protect and foster. The Committee recommended systematic mechanisation and modernization of small industries and expansion of technical, financial and other facilities for them.

To overcome handicaps, the Committee recommended: (i) the adoption of a credit guarantee system whereby a credit guarantee fund, under each State financial corporation, should be created for guaranteeing the obligation of small-scale units to financing institutions, (ii) creation of a credit insurance system whereby a credit insurance fund, mainly contributed by the Central Government, should be established in the Reserve Bank of India, (iii) establishment of a State co-operative bank or an apex bank in each State for providing finance to small-scale industries, (iv) utilisation of the branches of the State Bank of India as agencies of the State Financial Corporations, and (v) establishment of a "State Small Industries Corporation" in each State to deal with the hire-purchase of indigenous machinery.

The National Small Industries Corporation was set up in February 1955. It secures Government orders for small industries. It has also introduced a scheme for the hire-purchase of machinery and equipment needed by small units

Industrial Estates. Reference may also be made here to the establishment of **industrial estates.** This is being done to help the small entrepreneur and to enable him to overcome difficulties relating to finance, acquisition of factory site, provision of power, communications, etc. The Government has decided to set up a network of industrial colonies or estates ranging in size from 15 to 50 or 60 acres. The Government acquires the land, develops it, constructs roads and puts up factory buildings of different sizes. It makes arrangements for the supply of electricity and water, for proper communications and for conservancy and drainage facilities. Common service workshops are also set up by the Government for items like heat treatment, electric furnaces, etc., which the small units cannot normally afford to do on their own. Provision is also made for housing the workers. The factory buildings are then let out on rent or given on hire-purchase

terms or sold out straightaway. Loans for capital expenditure and equipment and also for working capital are also given on easy terms. As a special incentive to industrial co-operatives, loans are given at concessional rates of 2½%. The programme for industrial estates was very popular in the Second Plan and about 60 estates were set up. At the end of June 1963, 115 industrial estates had been completed. Central loans totalling Rs. 12.93 crores were given to State governments, from 1955 to 1962, for establishing industrial estates to enable the shifting of small industrial units from urban areas to new sites. It is proposed to set up during the Third Plan period about 300 more new industrial estates of varying sizes and types. It is also intended to start a number of industrial estates in selected rural areas where power, water-supply and other essential facilities are available. However, the working of these industrial estates has not been satisfactory. Out of 68 industrial estates set up till 1962-63, 48 estates were not working satisfactorily.

The development of village and small industries, as an integral element in an expanding national economy, has been one of the key programmes under the Five-Year Plans. This is expected to lead to fuller use of local resources, meet a significant part of the expanding demand for consumer goods, form a vital link between agriculture and large-scale industries and provide increasing opportunities for employment.

In the First Five-Year Plan, there was a provision of Rs. 15 crores by Central Government and Rs. 12 crores in the States for the development of cottage and small-scale industries. Actually a sum of Rs. 43 crores was spent. The objective of the policy under the First Five-Year Plan was to provide a field within which the cottage industry may be able to operate without being hampered by competition from large-scale industry. This policy was sought to be carried out by (i) reservation of spheres of production, (ii) non-expansion of the capacity of large-scale industry, (iii) imposition of a cess on the products of large-scale industry, (iv) arrangements for the supply of raw materials, and (v) co-ordination of research, training, etc. The best means of resuscitation of the cottage industries is to organise them into industrial co-operatives.

During the course of the Second Plan Rs. 175 crores were spent by the Government for the development of these industries against Rs. 43 crores spent during the First Plan. An industrial extension service was developed and Small Industries Service Institutes were set up in every State. About 60 industrial estates comprising over 1,000 small factories using power were established. Special arrangements were made for provision of credit, technical advice and raw materials and the supply of machines on hire-purchase system.

During the Third Plan, these industries are expected to make still more rapid progress. A total provision of Rs. 264 crores has been made in the public sector for the programme for village

and small industries as against Rs. 175 crores spent during the Second Plan. Three hundred new industrial estates will be set up. Rural industrial estates will be set up in selected rural areas. The village and small-scale industries will be developed to provide employment and to increase production of consumer goods and some producer goods too.

The total annual production of various types of industrial goods by small-scale industries in the country totalled Rs. 1,232.45 crores according to latest official figures available (October 1963). Small-scale units registered under the Factories Act number 36,457, employing 13.37 lakh people. The number of unregistered small-scale units is estimated to be over 64,000. These units, spread throughout the country, manufacture a wide variety of goods such as food, chemicals, leather, wood, electrical, transport equipment, printing, and basic iron and steel materials.

The development of these industries has a special significance in India. To quote the Karve Committee Report: "Handicrafts have far greater importance than is indicated by the value of their production because they embody ancient cultural traditions of the country and are an expression of its creative and artistic genius Development of handicraft is, therefore, not merely a matter of rehabilitating a few craftsmen in their ancestral trades but of keeping alive traditional art and giving free scope to the creative faculties and inherited skill of the people." (Para 19).

The programme of development of the village and small-scale industries has to be related to the concept of a **decentralised economy** in the future. To achieve a decentralised pattern of our economic society, it is essential to provide as near to the village as possible means of non-agricultural productive employment. The progressive expansion and modernization of rural industry can be most economically brought about by the spread of small industrial units along with the necessary services among the big villages or small towns located all over the country. It would be very economical if the development of large-scale industry is so planned that competent parts are produced in dispersed and small establishments which may be using centralized facilities for common service, assembly, finishing, etc. Thus a pyramid of industry broadbased on a progressive rural economy will be built up. A steadily expanding economic life on a decentralized basis, but wherever possible on a co-operative basis, is to be desired, not only for maximising the scope for effective utilisation of human and other resources but also for making a democratic control of economic life possible.

International Perspective Planning Team on Small Industries has, however, said that the policy of trying to implant a large number of industries in the most backward areas is doomed to failure and cannot be economically justified. A careful economic analysis should be made before making location decisions. According to the Team, the Central Government's proper role in

small industry development is formulation of policy, co-ordination of programmes and provision of technical assistance, training and economical information services. It should make and enforce the rules but should not operate the programmes itself, except in unusual circumstances.

CHAPTER XVIII

Some Major Industries

According to survy for 1960 registered factories in India numbered at nearly 8,704 of which 8,301, which submitted returns, showed an investment of Rs. 1,999.54 crores and employed 25,80,599 persons. The total value of the products of these manufacturing industries was Rs. 3,150.38 crores. They paid salaries and wages (including money value of other benefits) amounting to Rs. 481.56 crores. In 1961, the value of 1,333 selected large and medium-sized public limited companies was Rs. 2,867 crores and their sales amounted to Rs. 2,831 crores.

We shall now take up a few major industries.

Cotton Mill Industry

Although the first cotton mill in India was set up in 1818 in Calcutta, yet the real foundation of the industry was laid in Bombay when a mill was set up there in 1854. Later, more mills were started, especially in upcountry centres like Ahmedabad, Sholapur and Nagpur. In the period immediately preceding World War I, the Indian cotton industry was doing well and the two world wars gave it a further impetus.

The cotton textile industry is the largest single industry in the country. India holds the third place among the countries of the world in its capacity for producing yarn and cloth and stands second on the basis of cotton consumption. In addition to providing means of livelihood for nearly 10 million handloom weavers, the mill industry provides direct employment to more than 8.9 lakh workers. The number of mills in the country at the beginning of 1963 was 510 and the capital invested is estimated at about Rs. 120 crores.

The mills have been making serious efforts to improve their output. By the increased use of imported cotton, by the steady

improvement of the quality of Indian cotton, and through the adoption of such mechanical aids as better opening, cleaning, high draft system of spinning, and the use of combing machines, the progress in spinning finer counts has been accelerated. Similarly, there has been a marked improvement in the quality of cloth produced by Indian mills. Appreciable improvement has been made in design and style so that the Indian-made cloth is now almost as attractive as the imported one. Arno Pearse remarks: "The range of goods made by Indian mills does not stand behind that of the largest mills in Europe."[1]

During the World War II, there was heavy depreciation of machinery. Nearly 60% of the machinery is old. Renovation, replacement and modernization are urgently required. According to the Planning Commission, 150 units are uneconomic. The Working Group on cotton textile industry has put the total cost of modernization for the industry at Rs. 180 crores which is clearly beyond the capacity of the industry itself.

Strenuous efforts are being made to increase production of cloth. The Textile Enquiry Committee Report (1954) suggested a phased programme of conversion of the handlooms into automatic or semi-automatic improved handlooms. The Committee in its report in July 1958 listed a number of causes responsible for the difficulties of the industry. These refer to the need for replacement of outdated machinery, rationalisation, major repairs and overhauls, rectification of inefficient management, purchases and sales and improvement of productivity of labour. Since 1961, the cotton textile industry has been making remarkable progress. Its output has been continuously rising. This progress has been helped by favourable factors like availability of raw cotton, removal of controls on cloth and export promotion measures adopted by the Government.

Production of textiles (mill made) increased from 3,720 million yards to 5,102 million yards in the First Plan period and to 5,127 million yards by the end of the Second Plan. By the end of Third Plan, it is expected to go up to 5,800 million yards. The production in 1963 was put at 7,299 million meters of cloth and output of yarn at 893 million kgs. At the end of 1963 there were 510 mills (219 spinning mills and 291 composite mills which accounted for 14.12 million spindles and about two lakh looms). The industry consumes indigenous cotton worth about Rs. 120 crores every year and pays annually about Rs. 40 crores as taxes. The export earnings of the industry in 1963 amounted to Rs. 48.87 crores.

The main problems facing the industries are:

(1) The first problem is that of **replacement of old plant and machinery.** More than 75% of the machinery in the Bombay mills is more than 25 years old and mostly worn out. This

1. Arno S. Pearse—*Cotton Industry of India*, 1900, p. 6.

has reduced the productivity of the industry and thus increased the cost of production. There is a danger of abnormal rise in prices of plant and machinery if the replacement is made by many mills together. Moreover, the industry lacks adequate reserves to finance such replacements. Therefore, the Government should assist the industry in regulating replacements and providing loans at proper rate of interest to help in such replacements.

(2) Closely connected with the first problem is that of **rationalisation and modernisation.** The present machinery is not only old and worn out, but also obsolete in design and outdated. Thus, it requires to be replaced by modern equipment such as installation of **automatic looms**. But the difficulty is that of unemployment being caused thereby and, therefore, that of serious opposition to it by organised labour. The Government is of the view that rationalisation may be permitted only on the condition that workers rendered idle as a result be provided with alternative employment. On the recommendations of the Joshi Committee, the Government has permitted mills to instal automatic looms on the condition that the entire output from new looms is exported. The exporting mills have also been permitted to import their requirements of textile machinery including automatic looms provided payment for such equipment is spread over five years.

(3) The third problem is connected with **export promotion.** The **Second Five-Year Plan** reserved a large section of the home market for the handloom industry and expected to promote textile exports to the target of 1,000 million yards a year. But the record of cotton textile exports during the Second Plan has not been satisfactory. This is due to competition in foreign markets from Japan, Britain and China and the low competitive power of the Indian cotton mill industry owing to its high cost of production. Unless the quality of our textiles is improved and they are offered at reasonable prices, it would be difficult to compete with these rivals.

(4) Recently there has been a phenomenal **rise in cloth prices**. Mill-owners contended that the increase in cloth prices has been caused by cost inflation, and that cost **inflation** has emerged owing to an appreciable rise in raw cotton prices, enhanced incidence of wages and dearness allowance and an upward trend in the prices of stores and chemicals. But the general view is that the rise in cotton textile prices is out of all proportion to the rise in costs. The Government has, therefore, instituted some sort of control over the prices of varieties of cloth which are generally consumed by the poor and middle class people. The mills have also been directed to stamp the retail prices on cloth to remove profiteering on the part of the retailers. The real remedy, however, to meet the situation is **more production.**

(5) The various types of **restrictions** which the Government have put **on the expansion of the cotton textile industry** are not

only irksome to the industry, but a factor in keeping down production. The object of the Government in imposing such restrictions is to promote production in the handloom and small-scale sectors of the industry.

(6) The existence of 125 **inefficient and uneconomic units** (out of about 480 units in all in the industry) constitutes yet another problem. Many of them are working at a loss and some are working at marginal or slightly above marginal efficiency. If the development of the cotton mill industry is desired, Government must do something for the economic operation of these units.

(7) There is a certain amount of imbalance in the distribution of textile industry between north and south India. To remove this imbalance, the Union Government has decided now (June 1961) to allow five south Indian firms to set up textile units with a total capacity of 50,000 spindles for the manufacture of cotton yarn.

Jute Industry

The jute industry, too, was at first a handloom industry, and in the words of Dr. Forbes Royle, "forms the grand domestic manufacture....It pervades all classes and penetrates into every household." Up to 1857, all the gunny bags exported from India were made entirely by hand.[1]

The jute mill industry owes its inception to one George Acland who set up the first jute mill at Rishra near Serampore. Within a few years, the jute mills came to have a very prosperous career and, in the words of Wallace, "they simply coined money" between 1868 and 1873.

World War I gave a great stimulus to the industry. But in the post-war years it was not in a happy position especially since the thirties on account of world-wide economic depression.

In 1936, the Indian Central Jute Committee was set up. Its programme includes marketing and transport inquiry, agricultural and technological research, seed supply, improvement of jute forecast and collection and dissemination of information of interest to the trade. Agricultural Research Laboratories and Technological Research Laboratories have already been set up where spinning trials from various types of fibre are carried on.

The jute industry was passing through difficult times before the Second World War. The declaration of war put the industry again in a buoyant mood. Since then the industry has been enjoying a measure of prosperity.

The partition deprived India of 72% of the total jute-growing acreage and of 73% of the aggregate jute production. All the 112 jute mills were to be found in India. Soon after partition,

1. Dr. Forbes Royle—*The Fibrous Plants of India*, 1850, p. 251.

Pakistan started the 'battle of jutes.' An agreement was made in 1948 but not honestly carried out by Pakistan. They are doing their best to develop jute industry there. India also has been trying to be self-sufficient in jute and her effort to grow more jute has met with marked success.

As one of the principal earners of foreign exchange, the jute industry plays a vital role in India's economy. According to the 1960 Survey of Indian Industries, there were 95 jute mills in India out of which 94 had submitted returns. These later had a capital investment of Rs. 68.25 crores and employed 2,28,677 persons including 2,12,582 workers. The bulk of the mills are in Bengal, only a few in Andhra, Bihar, and U.P. The total capacity of the mills is 1,000,000 tons and the total value of the goods produced annually is Rs. 130 to Rs. 140 crores. Competition from substitutes and setting up of big and modern mills in Pakistan cause anxiety about the future of the industry. Rationalisation and modernization of plants, active steps to encourage exports especially to U.S.A. and reduction in costs will go a long way in helping the industry. Exports in 1963 were valued at Rs. 160 crores.

Rationalisation schemes have either been implemented or are being implemented in the Calcutta mills which will streamline the manufacturing process and will attain maximum efficiency at minimum cost. This has largely taken the form of closing the uneconomic units, merging production capacity with other units under the same managing agents and progressive reduction of superfluous workers. The progress of modernization has gained great momentum. The Government is giving loan for this purpose. Having gained the lost ground, the industry is now advancing rapidly. The main problems facing the industry, according to the Planning Commission, are shortage of raw materials, modernization of equipment and possible competition in foreign markets from substitutes and other products. Lack of finance is a major factor deterring the industry from undertaking modernisation. The industry will have to introduce greater diversification of production in order to maintain its competitive position in the world market. Modernisation up to spinning stage has been completed. A self-financing scheme has been introduced to enable the industry to complete modernisation and broad-loom expansion and build up necessary potential for additional production.

Production of jute manufactures has increased from 8.4 lakh tons in 1950 to 10.2 lakh tons in 1955, to 9.7 lakh tonnes in 1961 and to 12.88 lakh tonnes in 1963. The Third Plan target has been put at 13 lakh tons.

Iron and Steel Industry

There can be no two opinions about the urgent necessity of developing indigenous iron and steel industry if we are successfully to carry out the programme of agricultural and industrial

development in the country to improve living standards. It is the iron and steel industry which can supply the basic raw materials for factories, tools and implements, machinery, tractors, houses, electricity, locomotives, steamships and all the rest that is essential for economic development.

Acquaintance of Indians with the use and making of iron is said to date from 4000—5000 B.C. The Iron Pillar at Delhi, which is considered to be about 1,500 years old, is a marvel of metallurgical skill. The celebrated swords of Damascus were made of steel manufactured in Hyderabad. Conditions for the development of this industry are very favourable in India. In fact, there is hardly any region in the world, with the possible exception of Sweden, which can compare more favourably with India in regard to the availability of raw materials and the close proximity in which they are found. The reserves of high grade iron ore in Singhbhum region alone are estimated at 10,000 million tons and will last another 2,000 years at the present rate of consumption. The indigenous supplies of other raw materials are also abundant.

But the manufacture of iron and steel on modern lines and on a large scale was taken up very late. The first really successful attempt was made by the Tata Iron and Steel Co., formed in 1907. Next year was formed the Indian Iron and Steel Co., with its works at Hirapur near Asansol, and in 1923 was established the Mysore Iron Works at Bhadrawati. In 1937 was founded the Steel Corporation of Bengal. In 1952 the Steel Corporation of Bengal merged into Indian Iron and Steel Company. Tata Iron and Steel Works is one of the largest single units in the Commonwealth. A significant feature of the Tata Works is that it is a fully integrated concern owning its own coal mines and quarries supplying iron ore, limestone and manganese ore. The Works are ideally situated, because necessary raw materials like iron ore and coal are to be found within an economic radius. During the Second Plan, the three existing Steel Plants—Tata, Indian Iron and Mysore Iron—were earmarked for expansion. Tatas were to increase their production to 20 lakh tons of steel ingots (15 lakh tons of finished steel), Indian Iron to 10 lakh tons of steel ingots (8 lakh tons of finished steel) and Mysore Iron to one lakh tons of steel ingots (85,000 tons of finished steel). Their expansion schemes have been completed as planned. In 1963 the TISCO produced 10.35 lakh tonnes of finished steel and TISCO 6.5 lakh tonnes.

In order to take effective steps towards meeting the growing requirements of iron and steel in the country, the Government of India, set up, in the public sector, three new integrated iron and steel plants with the help of some friendly countries, each with an initial capacity of 10 lakh tons. These plants have been set up one each at Rourkela (Orissa) with German assistance (estimated cost Rs. 177.86 crores), at Bhilai (Madhya Pradesh) with Russian assistance (estimated cost Rs. 145.57 crores) and Durga-

pur (West Bengal) with British assistance (estimated cost Rs. 186.77 crores). The fourth steel plant is going to be established at Bokaro. The management of the three plants vests in the State-owned Hindustan Steel Ltd. (authorised capital Rs. 600 crores). The annual capacity of the Rourkela and Durgapur plants is being expanded to 18 lakh tonnes of ingots, Bhilai 25 lakh tonnes and Durgapur 16 lakh tons of steel ingots. In 1963, Rourkela Steel Plant produced 8.93 lakh tonnes of pig iron and 8.45 lakh tonnes of finished steel, Bhilai 12.6 lakh tonnes of pig iron and 11.2 lakh tonnes of finished steel and Durgapur 9.58 lakh tonnes of pig iron and 7.13 lakh tonnes of finished steel.

The output of iron and steel industry rose from 14 lakh tons steel ingots and 10 lakh tons finished steel in 1950-51 to 17 lakh tons steel ingots and 13 lakh tons at the end of the First Plan in 1955-56 and to an estimated quantity of 35 lakh tons steel ingots and 22 lakh tons finished steel at the end of the Second Plan in 1960-61. The production in 1963 was provisionally put at 67.3 lakh tonnes of pig iron and 42.65 lakh tonnes of finished steel.

According to the 1958 Census of Manufactures, there were in that year 167 large and small iron and steel works in India in which about Rs. 131 crores of fixed capital and Rs. 52 crores of working capital were invested and 93,283 persons were employed.

If per capita consumption of steel may be taken as an index of economic development, it will be apparent that we have a great leeway to make. It is 1,200 lbs. in the U.S.A., 600 lbs. in U.K., 470 lbs. in Australia and only 10 lbs. in India. The production figures are: U.S.A. over 100 million tons, Soviet Russia 40 million tons, Britain 18, Germany 17, France 10, Japan 5 million tons and India nearly one million tons.

Sugar Industry

At one time, Indian exports of sugar exceeded imports. But competition from Java sugar and the bounty-fed sugar from Europe dealt a death blow to the Indian sugar industry. The stimulus given by World War I afforded only a temporary relief and the few sugar factories that existed in India were having only a precarious existence.

In 1932 the industry was given protection for a period of 15 years. Its development under the shelter of protective tariff was simply amazing. Within two years there was 400 per cent increase in the number of factories and 700 per cent increase in the production of sugar. There was also a sharp decline in imports which up to 1930-31 averaged one million tons, but in 1936-37 the net imports were only 12,000 tons nearly. Again, in four years 1953-57, the sugar industry doubled its production from 10.01 lakh tons to 20.26 lakh tons. No other industry has shown such a record of progress.

According to the Census of Manufactures, 1958, the sugar industry provides employment to 103,600 workers and it supports

20 million cultivators; it constitutes 12% of the total value of the production of major industries of India; it contributes over Rs. 90 crores to national exchequer. It represents capital investment of more than Rs. 102 crores.

A noteworthy feature of the industry is that it is mainly confined to U.P. and Bihar. These two States account for about three-fourths of the total number of sugar factories in the country. This is a serious defect of location from the point of view both of raw materials and of distance from markets. New mills should, therefore, be located in other States, particularly in Madras, W. Bengal and Maharashtra to remove this drawback. Punjab also offers a good scope for locating a few new factories; next to U.P., Punjab is the biggest producer of sugar-cane. Another suggestion made is the **shifting of sugar factories** from certain parts of U.P. and Bihar to the South, say Madras, where better quality of cane is grown. By such movement, transport problem will also be eased.

Another serious weakness of the industry is that both the yield per acre and the quality of cane are low. The crushing efficiency of the mills also is far behind the standards of other sugar-producing countries. The cost of production of sugar, therefore, is very high. The cost can be reduced by improving yield and quality of cane and by improving the technical efficiency of the mills. Efforts should, therefore, be directed at improving the quality of the cane grown. The Development Council for sugar industry has therefore recommended that the **growers should be paid for cane according to its quality and not according to mere weight.** This system of linking price and quality is bound to stimulate genuine improvement. There is still another method, viz., the **economic utilization of by-products** like molasses and bagasse. The former can be used for the manufacture of power alcohol or for road surfacing and the latter for paper and pasteboard industries.

Like the cotton textile industry, the sugar industry also stands badly in need of **replacement, rationalisation and modernisation.** Most of the existing mills were put up over quarter of a century ago and are thus due for large-scale replacements and modernisation. Large funds are required for this purpose. Prices of sugar machinery have risen by 6 to 7 times since the installation of the present machinery. Normal depreciation funds are absolutely inadequate to cover the replacement expenditure. The industry has therefore appealed to the Government for adequate allowance for replacement requirements and for assistance. A recent favourable development is the starting of sugar machinery industry; it is proposed to expand it considerably during the Third Five-Year Plan.

Another problem is that of **competition from the khandsari sugar and gur.** Production of white sugar is to a great extent **affected by the production and prices of gur and khandsari.** If

because of better **gur** and **khandsari** prices, the cane grower gets higher returns by converting his cane into **gur** or by selling it to the **khandsari** producer, supplies of cane normally meant for sugar factories are increasingly diverted to **gur** and **khandsari** production, and to that extent production of sugar suffers. It is argued by the mill-owners that such a diversion made possible by control on sugar prices not only has reduced production of sugar factories, but also results in a lot of waste of sugar because of the inefficiency and low recovery of **khandsari**.

Till early 1961 still another aspect of the industry was the **rise in sugar prices** and the consequent **price control on them**. In the middle of 1958 the Government had to impose control on the ex-factory prices of sugar and had to restrict releases from mills. This rise in prices was partly due to decline in production in 1958-1959 (19.2 lakh tons) as compared with the steadily rising consumption and partly due to profiteering by the industry. On a further rise in prices in 1959, the Government tightened the prices still further, and in some places rationing was also introduced. Yet despite Government's complete control over distribution the prices continued to rule high till the beginning of 1961. This was due partly to the faulty distribution arrangements made by the Government, while the real remedy lay in augmenting production. In 1960-61, production actually rose to 25 lakh tons as against a domestic consumption of 21 lakh tons. During most part of the year 1961, the sugar industry was facing what has been called the **'Crisis of surplus.'** But for the last two years (1962-64), the country faced a serious sugar shortage and rationing was introduced in several States.

At the end of 1960-61, there were 175 vacuum sugar factories in the country. The output of sugar was nearly 11 lakh tons in 1950-51, it rose to 18.6 lakh tons in 1955-56, the end of the First Plan, and to 30.29 lakh tonnes in 1960-61, the end of the Second Plan. The output in 1961-62 season was of the order of 27.06 lakh tons. The 1962-63 output dropped to 21.52 lakh tonnes. The target for the Third Plan is 35 lakh tons. The Third Plan envisages expansion of sugarcane output to 100 million tons by improving the yield per acre. It is estimated that the share of the co-operative sugar factories will rise to about 25% of the overall mill capacity. In 1962-63, the Co-operative Sector produced 4.7 lakh tons representing 21% of the country's production. A provision of Rs. 6 crores has been envisaged in the Plan for contribution by State Governments to the share capital of co-operative sugar factories.

A significant development in the history of the sugar industry is that sugar exports have been steadily increasing since 1960-61. In 1962-63 they exceeded the target of five lakh tons. Foreign exchange earnings from sugar went up from Rs. 80,800 in 1960 to Rs. 14.81 crores in 1962 and are expected to be about Rs. 32 crores in 1963. Through persistent efforts, India has been able to secure a regular foothold in the international sugar markets.

It cannot be said, however, that even after 30 years of protection the industry can fully withstand foreign competition. The fact is that, unless the quality of cane is improved and its yield per acre considerably increased and unless milling efficiency goes up and increased use is made of by-products to lower the overhead costs, our sugar industry will not be able to face foreign competition.

In India, conditions for the expansion of the sugar industry, however, seem to be particularly favourable. We have an abundant supply of cane and cheap labour. Our population being largely vegetarian provides a vast market. Our present per capita consumption of 7 lbs. per annum is insignificant as compared with 105.8 lbs. in Australia, 105.4 lbs. in Great Britain and 94.8 lbs. in the U.S.A. Even a slight rise in the standard of living will open out a large field for further expansion.

Public Or State Enterprises

The public sector in industries has assumed greater importance in recent years. This is a very significant development in the post-independence era. There are certain industries which require huge capital outlay or the returns from which are long delayed. Hence private enterprise is either unable or unwilling to undertake them. Besides, there are such basic and strategic industries which the Government wants for social reasons to reserve for itself rather than leaving them to private enterprise. The industrial policy resolutions of 1948 and later 1956 indicate 'mixed economy' as their main feature. Thus the State must play an active part in promoting industrial development by supplementing private enterprise. It is in pursuance of this policy that a large number of industrial enterprises have been launched by the Government. The total outlay in the public sector on industries and minerals in the decade 1950-51 to 1960-61 amounted to Rs. 974 crores. A brief account of State enterprises seems to be necessary.

Sindri Fertilizer Factory.

The factory has already been completed at a cost of Rs. 28 crores. It went into operation in 1951. It is capable of producing 350,000 tons of ammonium sulphate a year. It is also proposed to expand this factory for the production of urea and ammonium nitrate. It is located in Bihar. It is Asia's most modern and the largest fertilizer producing plant. Reduction in costs lowered the selling price from Rs. 350 in 1951-52 to Rs. 270 per ton in 1954-55. The factory exceeded its production target of 330,000 tons of ammonium sulphate by 1,725 tons in 1956. In 1959-60, it produced 2,85,248 tons. A scheme to raise its output by about 60% has been completed.

Besides helping in the solution of our food problem, it will save foreign exchange to the tune of Rs. 10/12 crores. Thus a nucleus has been formed of heavy chemical and allied industries.

Three more fertilizer factories are being set up, viz., in Neyveli, Nangal and Rourkela, wih annual production of 70,000 tons, 70,000 tons and 80,000 tons respectively. New factories are also being set up in Trombay and Assam, having respectively a capacity of 90,000 tons and 32,500 tons. Another factory is under construction at Gorakhpur designed to produce 80,000 tonnes of nitrogen and still another in Madhya Pradesh with a capacity of one lakh tonnes of nitrogen. Some factories are being set up also in private sector.

Chittaranjan Locomotive Factory

It is located at Chittaranjan in West Bengal. It is the next biggest steel enterprise in production so far. The total cost is estimated to Rs. 15 crores. It has already started manufacturing some of the components. Originally designed to manufacture 120 locomotives, these works have been expanded and now produce W.G. type of locomotives equivalent of 200 standard type locomotives a year. In 1962-63 the factory turned out 169 broad gauge steam locomotives. Eventually the aim is to produce 300 standard size locomotives a year. Additional capacity is being developed for producing 70 electric locomotives a year. India has become self-sufficient in respect of steam locomotives and is in a position even to export. The Diesel Locomotive Works at Varanasi is expected to produce 25 locomotives a year. The Tata Engineering and Locomotive Works produced in 1962-63, 63 steam locomotives.

Integral Coach Factory

A railway coach-building factory has been established at Perambur in Madras at a cost of Rs. 7.3 crores. The factory is the outcome of Indo-Swiss Co-operation. It was inaugurated in October 1955. It is one of the largest of its kind in the world. Starting with 20 coaches in the first year, it produced 598 coaches in 1961-62, manufacturing all components in the factory itself. As a result of progressive introduction of the double shift, the factory's outturn may be stepped up to nearly 750 a year.

Machine Tools Factory

It is located at Jalahalli in Mysore State. Its estimated cost is Rs. 9.78 crores. The first batch of lathes was produced in May 1956. The Second Plan target of 400 machines was exceeded in 1957-58. Production in 1961 was 1,067 machines. It is also proposed to diversify production by taking up the production of metre gauge integral third class coaches, motor and parcel vans, rail cars of all gauges and electric multiple unit coaches. Besides lathes and milling machines, it is also taking up the production of other machine tools such as radial drills and grinding machines as a part of a programme of diversifying production. The factory specialises in the production of high precision machine tools. It will thus provide a basis for the development of heavy as well as light engineering industries. On March 1, 1953, the manage-

ment of the factory was transferred to the Hindustan Machine Tools Ltd., Bangalore, in which the Government hold 85% share and the Swiss firm 15%.

In collaboration with European machine tool manufacturers, diversification of production has been effected and a project for the construction of a second machine tool factory so as to raise production capacity to 2,000 machines per annum was completed in 1961.

Hindustan Ship-Building Yard

The Vishakhapatnam yard was acquired by the Government from the Scindia Steam Navigation Company in March 1952. The management was entrusted to the Hindustan Shipping Yard Ltd., with two-thirds capital owned by the Government and the remainder by Scindias. Seventy-eight per cent of the shares are now held by the Government. Engines and boilers are manufactured in the workshop at the yard. Berths for the building of ships are being expanded. The shipyard can build four modern diesel-propelled ships a year. The operation of the yard is expected to enable coastal shipping in India to meet the bulk of its replacement requirements. A five-year agreement was concluded with a French naval firm for technical assistance in the reorganisation and development of the yard. During the First Plan the Indian shipping tonnage increased from 3.9 lakh GRT to 4.8 lakh GRT and to 9.0 lakh GRT at the end of the Second Plan. The target for the Third Plan is 10.9 lakh GRT.

A second shipyard is now being built at Cochin and a sum of Rs. 20 crores has been provided for the project in the Third Plan.

Heavy Electricals Ltd.

It was formed in 1956 with an authorised capital of Rs. 30 crores. The plant is being erected in Bhopal. The first phase covering about seven years will require an investment of Rs. 21 crores, expected to go up eventually to Rs. 45.5 crores. Certain sections such as transformers, switchgears, thermal welders, etc., went into production in July 1960. More basic items of equipment like hydraulic turbines and generators and generators for diesel sets are expected to be produced during the Third Plan. Annual output worth Rs. 25 crores is aimed at. Another heavy electrical equipment project is being set up with Soviet assistance at Ranipur, Hardwar, to manufacture steam and hydro turbines and generators, large-sized industrial motors, etc. Project reports have been accepted in respect of heavy power equipment project, Ramachandrapuram, near Hyderabad (capital cost Rs. 33 crores), and high pressure boiler project Tiruchirapalli costing Rs. 23 crores.

Hindustan Steel Plants

The Second Five-Year Plan envisaged the construction of three plants of one million tons ingot capacity each in the public

sector. Rourkela (Orissa) plant which is estimated to cost Rs. 177.86 crores and produce 7,20,000 tons was put into operation in February 1959. The second plant, located at Bhilai (Madhya Pradesh), is estimated to cost about Rs. 145.57 crores, and is expected to produce 7,70,000 tons. This was also put into operation in February 1959. The third plant has been established at Durgapur (West Bengal) and is expected to cost Rs. 116.77 crores and is estimated to produce 7,90,000 tons. The blast furnaces at each of the steel plants will have a daily capacity of 1,000 tons of pig iron. Scope for further expansion in subsequent years has been provided. Thus, the Bhilai plant provides for ultimate expansion to 2.5 million tons of ingots per annum and Rourkela and Durgapur plants for expansion to 1.25 million tons of ingots each.

The other State enterprises are the Housing Factory near Delhi, a Penicillin Factory at Pimpri near Poona, a D.D.T. Factory, Telephone Cable Factory at Rupnarainpur in Burdwan District (West Bengal), National Instrument Factory at Jadavpur in Calcutta, Hindustan Aircraft, Mandi Salt Works and Rare Earth Factory, and Newsprint Factory (Madhya Pradesh). These were expanded in the Second Plan period and another D.D.T. plant was established at Alwaye in Kerala. A sum of Rs. 15 crores has been earmarked to enable the National Industrial Development Corporation to foster the production of heavy industrial machinery. An agreement was reached in 1957 with the Government of U.S.S.R. for assistance in establishing heavy machine building plant, a coal moving machinery plant and an optical glass factory.

The total investment in all the 49 industrial and commercial concerns in the public sector was of the order of Rs. 1,372 crores at the end of 1962-63. The Hindustan Steel Ltd., involving an investment of Rs. 724 crores, incurred in 1962-63 a loss of Rs. 23.9 crores. Of other 29 running concerns, 27 concerns earned a net profit of Rs. 15.20 crores. Taking a projected outlay of Rs. 3,200 crores during the Fourth Plan, the public sector would occupy a commanding position in organised industry and commerce and enable the State to determine the character and functioning of the economy as a whole in order that it may march towards the eventual establishment of a socialist economy.

Industrial Development

We can say that the 17-year period after Independence has witnessed very striking developments in the industrial sphere. Appreciable progress has certainly been made and, more important than that, several developments of far-reaching importance have occurred which have laid firm foundation on which further and quick development can reasonably be expected.

Development 1947-1950

The first that strikes in this regard is that the period falls

into **two broad phases**: the **first**, from 1947 to 1950 during which industrial production on the whole was more or less stagnant; and the **second**, from 1951 onwards, when we have had continuously rising production. Several factors were responsible for the initial crises of industrial sphere. The main one among them were: the difficulty of securing replacements for badly depreciated plant and machinery, serious labour unrest, the Liaquat Ali Budget of 1947-48 which placed unduly heavy tax burden on industry and the general cry of nationalisation of industries coming even from responsible leaders, near collapse of the capital market, existence of vaxatious economic controls, raw material difficulties arising out of Partition, serious transport difficulties and the lack of initiative and enterprise on the part of industrialists. Consequently industrial production failed to rise —index of industrial production (1946=100) actually fell to 97.2 in 1947 and after improvement in 1948 (108.4) fell again to 105.7 in 1949 and 105.0 in 1950.

Development Since 1950

During the second phase, which coincides with the period of Five-Year Plans, there has been a striking development of industries in ways more than one. The **volume of industrial production has risen appreciably**; the index of industrial production (base year 1951=100) rose to 180.6 in January-October 1961, as against 167.8 in January-October 1960, 140 in 1958, 137 in 1957 and 133 in 1956. The average general index of industrial production (base: 1956=100) rose to 129.8 in 1960, to 139.3 in 1961, 149.8 in 1962 and to 164.9 in 1963. The overall increase in output was rendered possible, inter alia, by (i) greater availability of basic supplies such as coal, steel, power and transport, (ii) improved supply of raw jute and (iii) appreciable additions to capacity coupled with an improvement in the utilisation of existing installed capacity in a number of industries. The national emergency necessitated reorientation of the industrial pattern with the highest priority accorded to industries having a direct bearing on defence efforts.

Despite foreign exchange difficulties and other limiting factors, the rate of industrial growth in 1964 has been maintained roughly on the same level as in 1963. During January-September 1964 the index of industrial production increased by 11 points, as compared with the corresponding period in 1963. Important sectors of the economy, such as automobiles, machine tools, electrical and industrial machinery, recorded a substantial increase in output during the year. Indicative of the activity on the industrial front was a larger number of applications for industrial licences during the year. Over 1,000 proposals for setting up new industrial ventures in various States or for expansion of existing units were approved during the year.

Another noteworthy feature of the Indian industrial development of the past decade is that this development has largely been

in respect of **basic, capital and producers' goods industries**, especially machinery and engineering industries. In this way the **lopsided character of our industrialisation has been rectified** to some extent and there has been a **considerable diversification** too in the country's industrial production. With the completion of the three new steel plants the total finished steel capacity has increased to about 4.5 mn. tons as compared with only 1 mn. tons at the beginning of the First and 1.3 mn. tons at the beginning of the Second Five-Year Plans.

Production in the existing major industries like cotton textiles, jute, sugar and salt has **greatly increased**, though there have been considerable variation from year to year. As against 3,720 mn. yards of cotton mill cloth in 1951, its production rose to nearly 5,000 mn. yards in 1961; production of sugar has increased from 11.2 lakh tons in 1950-51 to about 30 lakh tons in 1960-61. The increase in the production of jute manufactures has been relatively moderate—from 8.2 lakh tons in 1951 to 10.7 lakh tons in 1960-61.

There has also been a considerable **increase in the production of essential industrial materials** like cement, coal, aluminium. The production of cement rose from 27 lakh tons in 1950-51 to 85 lakh tons in 1960-61 and that of coal from 32 mn. tons in 1950 to 51.8 mn. tons in 1960. The country's industrialisation has been put on firmer basis **by the development of industries manufacturing industrial machinery.** An idea of the progress made in this respect may be gained from the fact that the aggregate value of all kinds of industrial machinery produced in the country rose from Rs. 11 crores in 1951 to about Rs. 79 crores in 1958. The corresponding figures for electrical equipment are Rs. 20 crores and Rs. 71 crores respectively. Much of the equipment required by the railways is by now available from indigenous production.

Many other **gaps in industrial production have also been filled or are being filled** with the establishment of several new industries like heavy electrical equipment and chemical industries, including heavy chemicals, drugs and pharmaceuticals, and fertilizers. In a number of newly-started industries, their **import component has been steadily reduced.**

Some progress has also been made in **replacement and modernization** of some of our old industries, notably in jute and cotton textile industries.

The manufacture of a number of **new products** has been established in the country for the first time. These include industrial boilers, milling machines and other types of machine tools, industrial explosives, sulpha and antibiotic drugs, D.D.T., newsprint, etc.

In short, there has been a broadening of the industrial base through additions to existing capacity, diversification of industries into related fields of manufacture and the establishment of entirely new ranges of production.

Another important feature of the **last decade's industrial** development is the striking **extension and improvement of facilities and institutions for industrial finance.** Without going into their details, we may only mention the various financing institutions which have either been set up during the past decade or if existing already the scale of their operations has been greatly enlarged. **Industrial Finance Corporation, National Industrial Development Corporation** (set up in 1954), **Industrial Credit and Investment Corporation of India** (1955), **National Small Industries Corporation** (1955) **and State Finance Corporation** in almost all States.

A review of the last decade's progress in the industrial sphere in the country would not be complete if pointed reference were not made to the tremendous **expansion in the facilities for technical training** within the country. A large number of engineering and technological colleges have been opened and the intake of trainees in the existing technical institutions has been greatly stepped up. Besides, under one or the other technical co-operation project, a considerable number of Indian technicians have been visiting advanced countries for learning the technical know-how there. In these ways, yet another weakness of and impediment to further industrial advance is being steadily removed and the industrial progress in the country is being put on a firmer footing.

Nor should we omit the considerable development that has occurred during the last decade in **village and small-scale industries.** Between 1950-51 and 1960-61, the production of **handloom cloth** is estimated to have increased from about 742 mn. yards to about 2,125 mn yards (i.e., about three times), of **khadi** from about 7 mn. yards to about 60 mn. yards (i.e., about 11 times) and of raw silk from about 2 mn. lbs. to about 37 mn. lbs. (i e., 18 times).

The production of a number of small-scale industries like builder's hardware, hand tools, sewing machines, electric fans and bicycles also registered really remarkable increase during this phase. Several types of facilities for their further development have also been provided during this period. For example, **Small Industries Service Institutes** have been set up in all States. In addition a large number of **extension centres** have been established in association with these industries. About 60 **industrial estates,** comprising about 700 small factories, are expected to have been set up by the beginning of 1961.

Yet another important development in the industrial sphere during the last decade has been the **increasing role of the Government in the country's industrialisation.** Under the Five-Year Plans, many large industrial enterprises (like the Sindri Fertiliser Factory, the Chittaranjan Locomotive Factory, the three big steel plants) have been started in the public sector.

During the last decade, under the fist two Five-Year Plans,

we have taken rapid strides in this respect. Prior to the planning era, the industrial development that had taken place was only one-sided, that is, in respect of a few consumers' goods industries only, while the capital and heavy goods industries had not even been begun. During the last decade or so, industrial structure in India has been widely diversified. A large number of new industries like petroleum refining, steel making, ship-building, aircraft manufacture, locomotive and wagon-building, manufacturing mechanical and electrical engineering goods, drugs and pharmaceuticals, chemicals, automobiles, fertilisers have sprung up to strengthen the industrial base of the country. There has also been a reorientation of the Government's industrial policy.

On the whole, the progress in respect of industrialisation has been quite gratifying. With two Five-Year Plans successfully carried out, India has now reached a stage when she can successfully break off the shackles of predominantly agrarian economy and put herself on the high road to modern industrial progress.

Drawbacks

In spite of all the industrial progress made during recent years, there have been many inadequacies and drawbacks in our industrial structure. The following are the principal drawbacks :—

In the **first** place, considering the size of the country, its huge population and its vast and varied natural resources, whatever industrial development has taken place is yet **meagre and inadequate.** India's backward position in industrial development can be judged from the fact that, at the end of the Second Plan in 1960-61, factory establishments will account for only 10% of the National Income. Moreover, employment provided by factory establishments at the end of the Second Plan would be about 4 million only or only about 2% of the working population. Thus we see that total production and employment in industries is yet very small.

The **second** major drawback in the industrial development of our country is that **regional distribution of industries is exceedingly uneven.** On the one hand, there is a disproportionate growth of large-scale industries in a few areas, and on the other, a virtual absence of such industries in the greatest part of the country. Most of the large-scale industries are located in West Bengal and in Maharashtra and Gujarat. Even in these States, industries are concentrated in a few big cities. For example, in Maharashtra State, there is concentration of industries in a few centres such as Bombay, Poona, Kolhapur and Sholapur; the remaining hinterland is very much under-developed. What is, worse, new industries have a natural tendency to gravitate to regions which are already well-developed. The excessive concentration of industries in particular areas has unwelcome consequences in both the social and the economic fields. What is

more, it perpetuates the backwardness of other regions. It is, therefore, essential that the development nuclei must be diffused as widely as possible. It is heartening to note that the Third Plan lays special stress on this aspect of development. It is stressed there that, while in the selection of sites for basic capital and producer goods industries, proximity to raw materials and other economic factors generally have to be decisive, yet there is a wide range of consumer goods and processing industries in which it is possible to foster a regional pattern of development.

Obsolete and Worn-out Machinery. Another major defect in our industries is that in most of the old industries such as cotton, jute, sugar, machinery is completely worn out and outdated. This has increased the cost of production and reduced labour efficiency. During the war, while plants were heavily overworked, replacements could not be imported. Increased cost of production has raised the price of the produces and thus has adversely affected the competitive power of these industries in the foreign markets. If we want to lower their prices and expand exports, modernization and rationalisation in them is absolutely essential. In recent years, rationalisation to modern machinery has been effected in industries like cotton textiles and jute, but much more still remains to be done. Difficulties of imports and lack of financial resources to buy them must be solved. Labour need be convinced that rationalisation would not work against them.

Inadequate and Defective Organization. Inadequate and defective organization of finance in the private sector is yet another defect. There are no industrial banks in our country and the attitude of commercial banks has been one of indifference. The finance to our existing industries has been provided by the managing agency system, which is full of defects and has very detrimental effect on industrial development. Thanks to the setting up of such institutions as the Industrial Finance Corporation, the National Industrial Development Corporation and the Industrial Credit and Investment Corporation of India, a sound beginning has been made in providing long-term finance for industries. There is a need for further augmenting the resources of these institutions, so that they may supply adequate finance to industries in the private sector.

Dependence on Foreign Exchange. Our industries still continue to face the difficulties of foreign exchange, particularly for the import of raw materials, components and producer goods. Due to a number of technical and economic co-operation programmes and agreements entered into with different countries, the Government has been able to license import of capital goods, machinery and equipment for the expansion of existing industries and the establishment of new industries. But the situation with regard to imports of raw materials and components is far from satisfactory.

Limited Foreign Private Capital Participation. The volume

of foreign private capital participation in the industrial development of the country is rather small. Out of the total investment of about Rs. 7,000 crores in the Second Plan, it is estimated that foreign participation will be of the order of Rs. 150 crores. In the Third Plan period, an inflow of Rs. 300 crores of foreign capital is anticipated. This is just less than 3 per cent of the total outlay. The need of the hour is to create conditions that will be conducive to the flow of a large volume of foreign capital into the country.

Inefficient Management. In industrially advanced countries, there has taken place, in the last fifty years, a great change in the management policies and practices or what is now called "Managerial Revolution." But in India, we, at present, are faced with conditions which existed in those countries fifty years back. Our management is yet quite inefficient and ignorant of modern management practices and policies. Increased industrial productivity and good management-labour relations cannot be achieved without skilled and efficient management. It is heartening to note that N.P.C. (National Productivity Council) has been taking keen interest in educating management for the last two years.

Although industries in India have made good progress, yet the **quality of the products produced, in most cases, is below standard.** There is a need for qualitative improvement in the production techniques, apart from quantitative achievement of the targets.

Industrial Unrest. In spite of the best efforts, legislative or otherwise, made in the past, there is yet no sign that the era of industrial peace has drawn nearer. There are frequent industr disputes involving a great loss of man-days. Many foreign observers have expressed the opinion that for a country which is virtually in its first stages of industrialization, India is somewhat excessively strike-minded. This is a pity considering that this country requires a long period of industrial peace in order to build up its economic edifice.

Rationalisation of Indian Industry

Indian industries, specially cotton and jute mill industry, urgently need replacement and modernization of plants. The plants are generally obsolete, unbalanced, and have been excessively worn out due to extra strain during the Second World War. There are three main arguments put forward in favour of rationalisation: (i) to meet foreign competition; (ii) to make-up arrears of repairs and replacements; and (iii) rising labour costs.

Replacements are overdue because, during the depressed thirties, the mill owners could not afford it and then, during the Second War and after, plants were over-worked and replacements could not be imported. In the recent years, strong labour opposition has stood in the way. Labour costs have gone up owing to progressive labour legislation. Due to competition from Japan

in textiles and from Pakistan in jute manufactures the need for modernization has become all the more imperative. It is needed to improve the competitive strength of these Indian industries.

The Jute Industry Inquiry Commission recommended in May 1954 highest consideration of problems of rationalisation of jute industry. The Commission estimated the cost at Rs. 50 crores. For the rationalisation of cotton textile industry, a sum of Rs. 300 crores is required.

Labour is opposed to rationalisation on the ground of displacement of labour consequent on the replacement of ordinary looms by automatic looms. Labour's indeed is a short-sighted view. Labour will, no doubt, be displaced but this displacement can be minimised through a phased programme of rationalisation. It has necessarily to be gradual in view of huge finances required for the purpose. If rationalisation is not effected, export markets will be lost and even home market will be invaded by foreign goods. This is bound to lead to the closing of mills and there may be then much greater unemployment.

From teachings of economic theory, we learn that displacement of labour is only a passing phase when modern machinery is introduced. Ultimately greater scope for employment of labour is created. But it must also be ensured that labour has its due share out of increased profits due to rationalisation. Hence the rational approach (which will also be a national approach) is not to obstruct efforts at raising efficiency and bringing about economic development.

The Union Ministry of Labour has prepared a model agreement to guide employers in regard to rationalisation. Among other things, the draft agreement provides for mutual consultation and co-operation between management and labour to facilitate implementation of rationalisation schemes in various industries.

The agreement provides that before any technological change, which may result in the diminution of the number of employees, is introduced, the management shall give reasonable notice, ranging from three weeks to three months, to the workers' union of its intention to effect the change. The notice shall contain full information regarding the nature of the proposed change, approximate date of such change, proposed duties of workers concerned and job assignment and expected earnings.

Representatives of labour and management shall, thereafter, meet and discuss the proposal. The workers' union shall, within a week after the discussion, submit its views or proposals to the employer. If there is agreement between the parties, the employer may introduce the changes on the date agreed upon by them. If, as a result of the introduction of the technological change, some employees are likely to be rendered surplus, the draft agreement provides that steps should be taken to expand,

if possible, the activities of the plant or the unit of production so as to absorb these persons.

No employee should be retrenched if other jobs are available in the same plant or under the same employer, which carry a comparable salary, subject to the fitness of the employee for the alternative job. Steps should also be taken by the employer to train such employees for making them suitable for the alternative job. In case of retrenchment, the agreement lays down that the management shall post notice in the department which will be affected, inviting volunteers for retrenchment on payment of the retrenchment compensation due under the Industrial Disputes Act, 1947. The agreement provides that retrenched employees shall have preference for employment under the same employer.

The agreement also provides for the maintenance of a panel of arbitrators acceptable to both parties by the employer to which the disputes may be referred.

The Indian Labour Conference held in July 1957 agreed to three conditions for rationalisation: (a) No retrenchment or loss of earnings of the existing employees; (b) equitable sharing of benefits of rationalisation between the community, the employers and the workers; and (c) a proper assessment of work load should also be made.

The Conference also agreed that the Government should make arrangements to ensure that the measures of rationalisation which do not serve the real economic interest of the country should be avoided. This would require the employers to take what might be called a "certificate of fitness" from the Government before undertaking rationalisation

Industries under the Five-Year Plans

In all plans of economic development, industrial planning naturally occupies a very important place. The Bombay Plan was even charged with partiality towards the development of industries rather than agriculture The Planning Commission in their report have also given much attention to the problem of industrial development in India. After making a rapid review of the existing industrial structure, war and post-war development of industries and of industrial organisation and management, they have made a number of important recommendations including the removal of lacunae and drawbacks in the existing industrial structure.

Considering the resources available as well as the requirements of the country, the Commission recommended the following order of priority in the matter of industrial development in the First Five-Year Plan:—

(1) Fuller utilisation of existing capacity in producer goods industries like jute and consumer goods industries like cotton textiles, sugar, soap, etc.

(2) Expansion of the productive capacity of producer goods industries like steel, cement, fertilisers, heavy chemicals, machine tools, etc.

(3) Completion of industrial units on which a part of the capital expenditure has already been incurred.

(4) Establishment of new plants which would lend strength to the industrial structure by rectifying the existing lacunae and drawbacks.

Since the bulk of the resources at the command of the Government were reserved for the development of agriculture, irrigation and power, the development of industries was made largely the responsibility of the private enterprise subject to the overall control of the State necessary to achieve the objectives of the Plan. The intention is that the two sectors should work in harmony and the private sector should submit to the discipline of planning and should accept the objectives laid down by the planning authority.

The Commission fixed targets of production and installed capacity to be achieved by major industries by 1955-56. These targets were fixed after carefully assessing the availability of materials, capital equipment, and the absorptive capacity of the market. The total capital investment, exclusive of the estimated expenditure of Rs. 150 crores on replacement and modernisation, necessary for industrial expansion in the private sector, was estimated at Rs. 233 crores. Of this sum 80% was in respect of capital goods and producer goods industries.

In addition to enterprises in the private sector, there were also to be State enterprises though few in number but great in economic significance. The total expenditure on the projects included in the First Five-Year Plan amounted to Rs. 94 crores (Rs. 83 crores by the Central Government and Rs. 11 crores by the States). The Plan also envisaged participation by private capital in certain projects to the extent of Rs. 22 crores. Among State enterprises may be mentioned the Sindri Fertilizer Factory, the Chittaranjan Locomotive Works, the Dry Core Cable Factory, All-Steel Coach Factory, and the various enterprises for the production of machine tools, telephone equipment, mathematical instruments, etc. Among enterprises under the jurisdiction of the State Governments those worth mentioning are a factory for the manufacture of Newsprint in Madhya Pradesh and one for nitrogenous fertilizers in Mysore. During the First Plan period, the annual turn-over of diverse types of industrial machinery rose from about Rs. 3 crores per year in 1950 to Rs. 23 crores in 1955. The imports of such machinery, however, remained between Rs. 72 and 80 crores.

The Second Five-Year Plan sought to remove the deficiencies in the industrial sector revealed by the experience of the First Plan. The most important single deficiency was the low level of steel production which is being met now by setting up of three

new steel plants in the public sector and the expansion of the capacity of existing producers. While the main emphasis during the First Plan period was on fuller utilisation of existing capacity, the main emphasis in the Second Plan was on the expansion of capital and producer goods industries with a view to firmly laying the foundations of industrial progress.

In order to ensure a steady improvement in the standards of productivity, efficiency and management, the Commission recommended the establishment of Development Councils of each of the major industries consisting of representatives of industry, labour and technical management. Besides advising the Government, the functions of these Councils will be to (i) recommend targets of production for securing fuller utilisation of installed capacity; (ii) suggest norms of efficiency with a view to eliminating waste, obtaining maximum production, improving quality and reducing cost; (iii) recommended measures for improving the working of the industry, particularly of the inefficient units; and (iv) help in devising a system of distribution and sales which would satisfy the consumer. It is thus hoped that the industries will be regulated by discipline from within and the joint efforts of all concerned. This will obviate amateurish intervention and irritating regulation from without. The responsibility of fulfilling the targets has been placed squarely on the industry itself.

The growth and diversification of industry under the first two plans have been remarkable especially under the Second Plan. During this period three new Steel Plants were set up and the two existing ones doubled. Foundations were laid of the heavy electrical and heavy machine tools industries, heavy machine building and other branches of heavy engineering and the production of machinery for cement and paper industries started for the first time. The progress in the chemical industries was on a wide front leading not only to larger units and greatly increased output of basic chemicals such as nitrogenous fertiliser, caustic soda, ash and sulphuric acid, but also to the manufacture of a number of new products such as urea, ammonium phosphate, penicillin, synthetic fibres, newsprint, dye-stuffs, etc. The output of many other industries increased substantially, e.g., bicycles, sewing machines, telephones, electrical goods, textile and sugar machinery. New skills were learnt by workers and a large and growing class of industrial managers came into being. Consultant organisations have also been springing up. Organised industrial production practically doubled in these ten years; the index of industrial production rose from 100 in 1950-51 to 194 in 1960-61. New industrial townships and factories sprang in the neighbourhood of the main cities. In order to bring about a balanced regional growth of the country, dispersal of industry was effected by giving preference in the location of public sector projects to relatively backward areas wherever possible. Similarly in the licensing of private sector projects the claims of under-developed regions were generally kept in view as far as possible.

However, there were some large shortfalls. For instance, the combined output of the three steel plants was only 6 lakh tons as against the target of 20 lakh tons. The production in the Tata Iron and Steel Works also fell short of the target. The expansion of the Sindri fertiliser factory could not be completed within the scheduled time. The completion of three new fertiliser factories at Nangal, Neyveli and Rourkela was delayed by a couple of years. Similarly the Heavy Electrical Project at Bhopal was delayed. The heavy machinery, the mining machinery and foundry forge projects too have lagged behind. This highlights the importance of advance planning.

The overall fixed investment on public sector projects during the Second Plan came to Rs. 770 crores as against the original estimate of Rs. 560 crores. The investment in the private sector was Rs. 850 crores. The total outlay in the public sector on industries and minerals in this decade amounted to Rs. 974 crores. In addition Rs. 175 crores were spent on village and small-scale industries.

Development Programme under Third Plan

The main emphasis in the Third Plan is on the establishment of basic capital and producer goods industries—with special emphasis on machine building programmes—and also the acquisition of the related skills, technical know-how and designing capacity so that in the following Plan periods the growth of the economy will become self-sustaining and increasingly independent of outside aid. The priorities have been laid down as follows:

(i) Completion of unimplemented or deferred Second Plan projects,

(ii) expansion and diversification of capacity of the heavy engineering and machine building industries, casting and forgings, alloy tool and special steels, iron and steel and ferro-alloys and step-up of output of fertilizers and petroleum products;

(iii) increased production of major basic raw materials and producer goods like aluminium, mineral oils, dissolving pulp, basic organic and inorganic chemicals and intermediates inclusive of products of petro-chemical origin; and

(iv) increased production from domestic industries of commodities required to meet essential needs like essential drugs, paper, cloth, sugar, vegetable oils and housing materials.

The development programmes for industries and minerals envisaged under the Third Plan entail an outlay of about Rs. 2,993 crores. The foreign exchange component is placed at about Rs. 1,338 crores.

The development programmes for industries and minerals in

the Third Plan in both public and private sectors are estimated to cost Rs. 2,993 crores (Rs. 1,808 crores public and Rs. 1,185 crores private). The private sector is also expected to spend Rs. 150 crores on replacements and modernisation. Besides, a total provision of Rs. 264 crores has been made in the public sector for the development of village and small industries. Investment in the private sector on these industries is expected to be Rs. 275 crores.

CHAPTER XIX

Industrial Finance and Management

Finance is the life-blood of industry. Adequate finance is absolutely necessary to oil the wheels of the industrial machine, to ensure its smooth working, to prevent its breakdown. Lack of adequate and timely finance is one of the causes of slow development of industries in India.

The problem of industrial finance may be studied in connection with (a) the small-scale and medium-sized industries; and (b) the large-scale or organized industries.

Financing of Small Industries

(a) **Industrial Finance in Rural Areas.** The small producer requires finance for the purchase of raw material to meet the expenses of production and final disposal of the goods.

In the rural areas, capital is extremely unorganized, and as a matter of fact much capital is not available. The village moneylender is the one basis of thrift in the vast desert of extravagance. The small producer being poor and unable to offer good security, the funds of the moneylender do not flow towards him except at exorbitant rates. "Every advantage is taken of debtor's illiteracy and helplessness."[1] Further, in the rural areas, there is a greater predilection in favour of investment in land or in jewellery or the money is simply hoarded The co-operative banks confine their activities to current agricultural finance and can ill-afford to spare any money for local industrial enterprises. The local industries, therefore, practically starve for lack of funds, or they have to pay unduly high rates.

(b) **Industrial Finance in Urban Centres.** In the cities, capital is better mobilized. In almost every city, there is a branch

1. Report of the Bombay Banking Enquiry Committee, 1931, p. 136.

of some joint-stock bank. The position has considerably improved in recent years for a large number of banks have been floated. But the requirements of finance in the urban areas, both for the cottage worker and the middle-sized industries, are also greater. Their operations are on a large scale and more funds are required to sustain them.

To afford financial help to the cottage worker, a number of middle-men, besides the ordinary **sahukar**, have appeared on the scene. The **mahajan** gives a cash loan, and if he is also a dealer in raw material, he supplies it on credit. The **mahajan** takes full advantage of the poverty and isolation of the artisan and charges a high price for this accommodation. According to the Punjab Banking Enquiry Committee, the Punjab weavers had to pay 12½% to 37%. These rates are certainly too high for any industry to bear.

The medium-sized industries fair no better. Although they are started by men of substance, yet they too often need assistance. The indigenous bankers, lending on personal security, charge high rates ranging from 9 to 15%. The joint-stock banks advance loan against fixed capital to the extent of 20 to 30% of the estimated value of the property and machinery, and against stock to the extent of 70%. The terms on which the banks lend are regarded as inconvenient and irksome. "There is no doubt the small entrepreneur....is hampered seriously by the lack of banks and of finance at reasonable rates."[1]

Another source of financial assistance is the State. The State Aid to Industries Acts are in operation in all the States. But the experience of the State loans has not been a happy one, for a large number of such loans became frozen and had to be written off. A Government loan with its elaborate formalities gives unwelcome publicity. The industrialists are jealous of tneir credit and avoid the inquisitorial gaze of the Government officials. Nor are the Government officials competent to judge an industrial proposition and the credit worthiness of a party. Although the State Governments are primarily concerned with the development of small-scale industries, financial assistance is given by the Centre for specific schemes to supplement the efforts of the State Governments. This Central assistance by way of loans and grants has been steadily increasing. This amounted to Rs. 6.28 crores in 1962-63 (budget). For the Second Five-Year Plan period as a whole, the Centre's assistance to States and Union territories for the purpose of making loans to small-scale industries totalled Rs. 23.01 crores and Rs. 5.73 crores by way of grants. The assistance of the States for this purpose was Rs. 12.43 crores.

In July 1960, the Government of India started a scheme for the guarantee of advances granted by specific banks and other financial institutions to small-scale industries. By the end

1. Report of the Industrial Commission, 1918, p. 178.

March 1962, the guarantee organisation had accepted 2,285 applications for Rs. 7.63 crores. The bulk of the applications was from the State Bank. In 1962, further steps were taken to facilitate the operation of the Scheme and to encourage credit institutions to enlarge their advances to small-scale industries.

The Commercial Banks also render some financial assistance. But it is not significant. According to a survey of commercial bank advances as on October 28, 1960, advances to small-scale industries were barely 6% of the total industrial advances.

The State Bank of India has introduced a scheme for the co-ordinated provision of credit to small-scale industries. It put into operation in 1956, a 'Liberalised Credit Scheme' in order to assist the small industries as much as possible. Although the traditional safeguards would ordinarily be maintained, the rigidity of safeguards as well as administrative procedures would be relaxed in favour of small industrialists, who will receive help and guidance from the Agents of the Bank. With a view to making the 'pilot scheme' more effective, the State Bank (a) has fixed interest on such advances at an all-inclusive rate not exceeding 6%, (b) has decided to make medium-term advances for period not exceeding 7 years for expansion and renovation, and (c) enlarged the list of commodities, against which advances may be granted. At the end of March 1962, 2,917 units were assisted and aggregate credit limits sanctioned amounted to Rs. 10.38 crores. Similar schemes sanctioned by the eight subsidiaries of the State Bank amounted to Rs. 3.72 crores in respect of 509 units.

By an amending Act, the Reserve Bank has been empowered to act as an agent of the Government of India in implementing the credit guarantee scheme intended to facilitate the grant of loans by commercial banks and certain other financial institutions to small-scale industries. The Guarantee Scheme came into force on July 1, 1960. The object is to enlarge the supply of institutional credit to small-scale industrial units by granting protection to lending institutions against possible losses. The Reserve Bank has also been empowered to extend medium-term loans to the State Financial Corporations and other financial institutions notified by the Government of India.

Financing of Large-scale Industry

The large-scale industry needs funds for **block or capital expenditure**, i.e., for the purchase of land, erection of the factory building, for setting up machinery, etc., and, in the case of a going concern, for extensions and replacements. Besides this, funds are also required for the purchase of raw materials, for stores, for other expenses incidental to production and marketing, and for meeting the day-to-day requirements of the industry. This is known as the **working capital**.

How they should be financed

Dr. Jeidels, a foreign banking expert who was consulted by the Central Banking Enquiry Committee, was of the opinion that not only block but also normal working capital should be furnished out of the firm's own initial capital.[1] But strict adherence to this view will prevent even many sound concerns from seeing the light of the day, for it is rare that an industrial concern in India has raised sufficient capital for both these purposes.

The Central Banking Enquiry Committee held that an industrial concern, having raised initial capital sufficient for block, could rely on commercial banks for the working capital and also temporarily for funds required for extension.[2] This is obviously placing too much strain on the commercial banks.

The sound principle, however, seems to be that the concern should raise all the initial capital for block **plus** that proportion of working capital which is permanently locked up, and, for any working capital required over and above this, it may rely on the banks to supply it. But this sound principle has been honoured in India more in the breach than in the observance, with serious consequences to the investor, the industry and the promoters themselves. There are not a few cases when the industrial concerns found themselves in financial difficulties shortly after start. The under-capitalization of the Indian industrial concerns is notorious.

How they are actually financed

The main sources are: (i) **Shares and Debentures.** Our industries raise the bulk of their share capital in the form of ordinary shares and the tendency in recent years has been to issue them in lower denominations. Debentures do not seem to be popular with the Indian investors, and the companies, too, hesitate to issue them for fear of losing credit. The various causes that limit the market for debentures in India are: heavy legal and stamp charges and underwriting commission, heavy transfer fee, limited return, no prospect of capital appreciation, frequent failures of industrial investments, practice of insurance, companies to invest in the gilt-edge, etc. The companies cannot, therefore, raise enough capital for their normal requirements.

(ii) **Managing Agents.** The Indian public prefers to invest in Government securities and municipal or trust loans. Thus the paid-up capital often does not cover even the block. This makes the finances of the company precarious and throws them at the mercy of the managing agents and other financial houses. The managing agents buy bulk of the shares, advance money for extensions, and also come to the aid of the concern in times of distress. We shall examine fully the role that the managing agents play in our industries in a later section.

1. Dr. Jeidels—Memorandum on Industrial Finance, Report of the Indian Central Banking Enquiry Committee, 1931, Vol. IV, p. 146.

2. *Ibid.*, Vol. I, pp. 275, 298-99.

(iii) **Deposits.** There is another source of funds, viz., deposits from the public. This system is specially prevalent at Ahmedabad. But deposits have been described as 'fair-weather friend' and are likely to desert at the slightest stock of adversity. Besides, it is unsound to finance schemes of capital expenditure out of these short-term deposits.

(iv) **Cash Credit.** Short-term loans, on the cash-credit system, can be obtained from the commercial banks on the security of stock and, in some cases, on the additional guarantee of managing agents. But the cash credit system fails during depression, for either the amounts are recalled, which leads to forced sales accentuating the depression, or the mill-owners are asked to increase the security, which is not always easy.

(v) **Financial Assistance from Banks.** Conflicting opinions were expressed before the Central Banking Enquiry Committee about the financial assistance given by our banks to industry. On the whole, it appears that our banks have been working on too rigid and orthodox lines to be of much use to the industry. • Their unwillingness to advance money on personal security or on the security of block, even though unencumbered, and their insistence on full backing of tangible and easily realisable security detracts from their utility to the industry. Hypothecation of stocks on which they generally insist, involving as it does a visible control by the bank, damages the credit of the party, and deters them from availing even of the very limited financial facilities provided by the banks. "Industry in India is face to face with banks run on ideal lines."[1]

There is no member of our banking system whose avowed aim is to help industry. The State Bank of India has its hands full with ordinary commercial banking business, and there are not many other joint-stock banks which, by experience and financial strength, are competent to take up the task of financing the industries. The foreign exchange banks are busy in their own sphere, and do not feel interested in financing Indian industries. The indigenous banks find the financing of trade and ordinary money-lending too profitable to turn to industries. Besides, the resources are insufficient to be of any substantial aid to industries. The Co-operative banks are meant to help the agriculturists. Thus "no banking agency cultivates industrial relations."[2]

The Fiscal Commission (1949-50) came to the conclusion that the existing credit facilities offered by the commercial banks were hardly adequate to meet their growing needs.[3]

The main features of the present industrial finance in India

1. Indian Central Banking Enquiry Committee (Minority) Report, 1931, Vol. I, Part II, p. 333.

2. Dr. Jeidels—Memorandum on Industrial Finance, Report of the Indian Central Banking Enquiry Committee, 1931, Vol. IV, p. 184.

3. Fiscal Commission Report, 1949-50, p. 249.

can thus be summarised: (i) **Facilities for industrial finance are utterly inadequate, there being no industrial banks or issue houses** and till recently no special financial industries.

(ii) Not only are the existing sources inadequate but also defective. For instance, the managing agents exact too heavy a price and deposits are fair-weather friends.

(iii) The charges for financial accommodation are exorbitant and no industry can bear such a heavy charge.

(iv) The role played by the State is insignificant. The State Aid to Industries Acts have not proved very fruitful.

Causes of Shortage

One of the handicaps to industrial development in India has been a shortage of industrial finance. The reasons for this are not far to seek. Below we may notice the important ones among them:—

(i) To begin with, **the rate of savings in the country has been very small,** owing obviously to the meagre annual production in the country. Savings are after all the excess of production over consumption. When production hardly suffices for consumption at the lowest standards, how can we expect to save a comfortable margin?

(ii) The **hoarding habit** is also responsible for shortage of finance. Whatever little saving is made is not usually forthcoming for investment in industries. It is, on the other hand, hoarded. That is why Indian capital has come to be described as shy.

(iii) The capitalists have been much **afraid of nationalization of industries.** In fact, there has been much loose talk even on the part of many responsible political leaders regarding the probability of most industries being nationalised. This fear has, however, been ill-founded. While the Industrial Policy Statement made in 1948 and the provision in the Indian Constitution (Article 31) against nationalization with adequate compensation should have set at rest any doubts on this score, the amendment of the Constitution in 1956 making the executive the final authority to decide what compensation should be paid has once again shaken the confidence of the investors.

(iv) **The high level of taxation** has also served to discourage capital formation. In the earlier years since Partition, the Liaquat Ali Budget of 1947-48 proved a serious hindrance to investment in industries, owing to enhanced taxation. There is no doubt that the subsequent Finance Ministers have tried to undo the mischief done by the Liaquat Budget by providing several rebates and concessions, but these are taking time to produce results. And in the meantime the higher level of taxation necessitated by the Five-Year Plans and the new taxes like the Estate Duty, Wealth Tax and Capital Gains Tax have acted as a disincentive to saving and investing.

(v) There has also been a **shift in wealth distribution in the**

community. Those classes, for example, the middle **class, which** were in the habit of saving and investing have been ruined by inflation. The agriculturists and industrial labourers who are now in a position to save are not accustomed to investing.

(vi) There has been, in recent years, too much **speculative activity** in the stock exchanges, resulting in wide fluctuations in stock prices. This has naturally discouraged bona fide investors from investing in industry.

(vii) With the beginning of the World War II, there started a mushroom growth of joint-stock companies. But very often such companies came to grief on account of the **malpractices indulged in by unscrupulous managing agents.** Many gullible investors were thus ruined. This served as a serious deterrent to general investment.

(viii) In recent years the various types of **restrictions imposed by the Government** either by way of regulating and controlling industries or by way of protecting industrial labour have also discouraged investment. **Recent labour legislation** has placed additional financial burden on the industries.

(ix) **Absence or inadequacy of proper financial institutions.** Until recent years, we did not have proper institutions for providing long-term finance for industries. We still do not have **issue houses**, nor do we have **investment trusts and unit trusts.** There are no industrial banks either. Insurance companies were also required by law to invest a large proportion of their funds in Government securities and were, therefore, not in a position to supply large capital for industrial concerns. Commercial banks in India have also been keeping themselves severely aloof from finding long-term capital for industries; they have confined themselves to working capital only. It is only in recent years that a number of financial institutions like the Industrial Finance Corporation, the State Finance Corporations, and the Industrial Credit and Investment Corporation of India have been set up. It will take some time before their scale of operations becomes large enough to meet the requirements of industrial finance in a rapidly developing country like ours.

Remedies

Among positive measures, the most important would be the quick and sound **development of banking institutions** in the country. Further, banking facilities to **mobilize rural savings** must be quickly extended, since the shift in the distribution of wealth has generally been to the rural areas. The Rural Banking Enquiry Committee (1949) made many valuable suggestions in this connection. The hoarding habit in the country must be fought vigorously. Saving drives should be organised among small-savers, especially among women.

To encourage a free flow of savings into desirable investments, the **stock exchanges must be purged of their speculative activities.**

The Company Law must be so amended as to **eliminate the chances of malpractices** on the part of the managing agents. **Investment trusts** should be established to enable the investing public to diversify their investments and thus spread their risks. **Industrial Development Corporations** should be established for planning, promoting and financing new industries and technical advice should be made available to industrialists.

It is gratifying to see that measures on the above lines have either already been taken in recent years or are contemplated by Government. Company Law has been thoroughly revised (1956) and several financial institutions for the provision of industrial finance have been set up in recent years, e.g., the **Industrial Finance Corporation, State Finance Corporations** in States, the **National Industries Development Corporation**, the **Industrial Credit and Investment Corporation of India**, and the **Refinance Corporation of India.**

The present arrangements have not been found to be adequate to stimulate investment in equities. In order to promote private investment in industrial equities and Government securities and to facilitate larger flow of remittances from abroad, the Finance Minister announced in the Lok Sabha on December 24, 1964 the following incentives:

(1) A tax credit to individuals and Hindu undivided families subscribing to the equity shares, issued for the first time after December 23, 1964 by newly-established Indian public limited companies engaged in certain specified industries. The tax credit will be at the rate of 5% of the value of the investment each year for a period of 4 years on investments up to Rs. 15,000, 3 per cent per year for the next Rs. 10,000 of investment, and 2 per cent per year for the next slab of Rs. 10,000. The concession will be granted in the form of non-negotiable tax credit certificates issued to the share-holders for the amount of the tax-credit.

(2) Exemption of individuals and Hindu undivided families from the unearned income surcharge on their income from interest on Government Securities. In such cases, interest on Government Securities will, however, be liable to surcharge as on earned income. This concession will be available for the assessment year 1965-66 and later.

(3) Exemption of non-residents from tax on interest accruing on bank deposits in India out of moneys transferred from abroad.

Suggestions for Improving Industrial Finance

The above survey of industrial finance shows that our industries are receiving little assistance from our banks, and till recently we had none of the special institutions like the issue houses of England and other institutions set up there. In the case of our industries, either adequate financial assistance is not forthcoming or it is given almost at prohibitive price.

No expert and reliable guidance is available to the average Indian investor who himself can hardly be expected to judge the profitableness and safety of an investment. The yearly recurrence of so many company failures frightens him. In the words of the Industrial Commission, "The difficulty in raising capital for industries is mainly the measure, even in India, not of the insufficiency or inaccessibility of money but of the opinion which its possessors hold of the industrial propositions put before them."

For improving the system of industrial finance in India measures have to be taken:

(a) to stimulate investment by the establishment of institutions like issue houses and investment trusts,

(b) to enlarge the activities of the existing institutions, and

(c) to establish new financial institutions.

Steps that can be taken to increase financial facilities are mentioned below:—

(1) The big commercial banks should develop a sympathetic attitude towards industries; they should maintain close and continuous association with them, so that they may be able to give timely and adequate aid to them, consistent, of course, with their own safety. In the words of Dr. Jeidles, "Capital market in India seems to be large enough to give room to a certain activity of banks in the field of industrial financing."[1] They should arrange for underwriting the issue and provide temporary finance, and even long-term credit, in anticipation of this issue. They should assist in the reorganization and rationalisation of the existing industries and in the establishment of new enterprises. Life Insurance Corporation should also adopt helpful attitude. According to a Working Group set up by the Reserve Bank in 1961, the commercial banks in India are still dominated by outmoded ideas of liquidity. Their over-cautious outlook is the result of oppressive conservatism of the British tradition which continues to influence banking practices in our country. The Working Group has advised our major commercial banks having extensive branch networks and close contacts with industry and commerce to introduce greater flexibility in their lending operations and supplement more actively existing sources of long-term finance for industry. This they should do especially in view of the facilities provided by the Refinance Corporation.

(2) We should also have **industrial banks** with a large proportion of share capital and receiving long-term deposits to specialize in the business of industrial finance. The Government must help by taking up part of the share-capital or by guaranteeing a minimum dividend or guarantee the advances given by the banks.

(3) To help the small investor, who cannot make a discrimin-

1. *Vide* Report, p. 179.

ating choice between the different securities offered to him, we should have **investment trusts.** They should hold or deal in shares so that they can provide the small investor with an opportunity of buying "blended packets" of a number of securities. This investment will be diversified and the risk spread.

(4) Special banking institutions may be started to mobilize the small and scattered amounts of capital. They should cater for the needs of the small depositor by offering better terms and facilities.

(5) The number of stock exchanges should be increased and their working improved so that the investing public can easily buy or sell the stocks and shares of industrial companies.

(6) It is necessary to reform the managing agency system so that it encourages investment by the prospective investors.

(7) The funds and functions of the Industrial Finance Corporation and State Financial Corporations should be enlarged.

(8) For the assistance of new industrial enterprises, there is the need for a special type of Development Corporations. These corporations should plan, promote and finance new industrial ventures.

It is gratifying to note that steps in this direction have already been taken. Industrial Finance Corporation for financing large industries and State Finance Corporations for small industries have been established. Other Corporations like the National Industrial Development Corporation, the Industrial Credit and Investment Corporation and the National Small-Scale Industries Corporation, Unit Trust, Industrial Development Bank have been established. (The objects of these Corporations are given below.) The Reserve Bank is now more sympathetic. The State Bank also provides co-ordinated credit to small industries.

There is now full awareness of the urgency for providing adequate financial facilities for industrial development, especially because the Second and Third Plans lay great emphasis on industrial development. Positive steps are now being taken to step up provision of industrial finance.

If the measures suggested above are adopted, it may be hoped that a big stumbling block will be removed from the path of industrial development in the country.

We shall now study the outline of some special financing institutions which have been set in recent years to aid Indian industries.

Industrial Finance Corporation.

Towards the close of World War II, there was a great urge in India for industrial development. But the industry badly needed capital for modernisation and replacement of worn out and obsolete machinery. The stock markets, on the other hand, were very apathetic. Hence there was a great need for an

agency which would help in the acquisition and extension of the block. To meet this need, Industrial Finance Corporation was set up in July 1948.

The function of this Corporation is to provide credit for medium and long-term capital requirements of industries, which are outside the normal activities of the commercial banks. The share capital was Rs. 5 crores and the shares are held jointly by the Central Government, the Reserve Bank, scheduled banks, insurance companies, investment trusts and similar financial institutions. The shareholders are institutions and not private individuals.

The shares of the Corporation are guaranteed by the Central Government as to repayment of the principal and payment of dividend not exceeding $2\frac{1}{2}\%$.

The Corporation is authorized to issue bonds and debentures for amounts which, together with the contingent liabilities of the Corporation, shall not exceed five times the amount of the paid-up capital. The Central Government guarantees such bonds and debentures as to repayment of the principal and payment of interest not exceeding $2\frac{1}{2}\%$.

The Corporation may accept deposits from the public repayable after a period of not less than ten years.

The Corporation is authorized to make long-term loans to manufacturing concern or concerns for generating or supplying electric power, repayable within a period not exceeding 25 years. It can also underwrite the issue of shares and debentures subject to the provision that the Corporation is required to dispose of any shares or debentures acquired by it in fulfilment of its underwriting liability within a period of seven years. The rate of interest charged on loans by the Corporation has been raised to 7% with effect from April 23, 1957, with the usual $\frac{1}{2}\%$ rebate for payment on due dates.

Industrial concerns owned by the State are outside its scope. The Corporation only finances private industrial enterprises without becoming a partner. It can grant loans to public limited companies or co-operatives, but not to private limited companies or partnerships. The Corporation pays special attention to the development of industries of strategic and national importance. The financing of small and medium industries is primarily the concern of State Financial Corporations which have been set up in several States.

The Industrial Finance Corporation can be of great help to our industries. In the absence of issue houses in India, the Corporation can scrutinise the financial aspects of an industrial venture and say whether it is sound or not. It can give very valuable advice and guidance to promoters in various directions and help them to improve their schemes and place them on a sound economic basis. Through its technical advice, the quality of the pro-

ducts can be improved and thus the competitive position of the Indian industry strengthened.

In 1953, the Industrial Finance Corporation Act of 1948 was amended. The more important provisions included (1) empowering the Government of India to guarantee loans in foreign currency which the Corporation may secure from the I.B.R.D. or otherwise, (2) authorising the Corporation to borrow from the Reserve Bank against Government securities for short periods not exceeding 90 days and also to get loans from the Reserve Bank up to a maximum of Rs. 3 crores for periods not exceeding 18 months against bonds and debentures issued by the Corporation, (3) the Union Government and Reserve Bank shall not draw any dividend until the aggregate amount of such dividends to be credited to a Special Reserve Fund reaches Rs. 50 lakhs, (4) raising the maximum limit of a loan which the Corporation may grant to a single borrower from Rs. 50 lakhs to Rs. 1 crore, and (5) including shipping companies among eligible borrowers.

According to the Industrial Finance Corporation (Amendment) Act, 1957, the Corporation is empowered (1) to borrow up to a limit of **ten times** its paid-up capital and reserve fund as against **five times** provided for in the original Act of 1948, (2) to accept deposits from the State Governments and local authorities also (it could formerly accept deposits from the public only), and (3) to guarantee deferred payments by importers of capital goods who are able to make such arrangements with foreign manufacturers. The amending Act also enables a larger number of industries, including new industrial concerns, which are not in a position to offer adequate security, but deserve encouragement from the point of view of national economy to avail themselves of the Corporation's loan assistance, if such assistance is guaranteed as to the repayment of principal and interest by the Central Government, State Governments, a scheduled bank or a State Co-operative Bank.

With a view to enlarging and diversifying the assistance provided by the Corporation, the Industrial Finance Corporation Act was further amended in December 1960. The Amendment Act, among other things, widened the powers of the Corporation, regarding guaranteeing of loans and deferred payments, empowered the Corporation to subscribe directly to the stock or shares of the industrial concerns and also allowed the corporation to convert loans granted or debentures subscribed by it into stock and shares of the respective concerns.

The working of the Corporation has met with severe criticism and not without some justification. Its loan to the Sodepur factory, for instance, involved it in a huge loss. Its resources are said to be inadequate. It was also charged with favouritism. A Parliamentary Enquiry Committee examined all these charges and its suggestions for improvement are being given effect to. On the whole, it would be fair to conclude that it has been doing

good work and, as it gathers experience, its career will be more fruitful.

During 16 years of its existence (1948-64), the Corporation has made important contribution towards accelerating the process of industrial growth by providing the much needed financial assistance to the Corporate sector and progressively expanding its activities both in scope and magnitude. In the early years of its life the Corporation's financial assistance was in the form of rupee loans but it gradually extended its operations to cover deferred payment guarantees and guarantees for foreign loans. It has further ventured forth into underwriting of public issues in the form of equity and preference shares and debentures as well as direct subscriptions to such issues. The Corporation thus gradually has been assuming the role of a development bank over and above those of a mere lending institution. Up to June 1964, the Corporation rendered assistance to the extent of Rs. 240.97 crores of which 70% was sanctioned for the setting up of new units. The total cost of the projects financed by it is estimated at Rs. 433 crores representing roughly 30% of the total net investment in the organised industries in the private sector since Independence. A large part of its financial assistance has flowed towards the establishment of new units in diverse industrial fields. It has thus contributed towards strengthening and broadening of the country's industrial structure.

The share capital of the IFC held by the Government of India and the Reserve Bank will be transferred to the IDB. To acquire controlling interest in the IFC, it will purchase more of its shares.

State Financial Corporations

A Bill for the setting up of State Financial Corporations was introduced in Parliament in December 1951, with a view to giving aid to medium and small-scale industries. The Bill provides for the association of private capital with the Corporations. The maximum number of shares to be held by the public has been fixed at 25%. The remaining 75% was to be subscribed by the State Government, the Reserve Bank, the scheduled banks, insurance companies, investment trusts, co-operative banks and other financial institutions. This achieves the necessary financial co-ordination. The total share capital is not to exceed Rs. 2 crores.

The Corporation can raise capital by the sale of bonds and debentures in consultation with the Reserve Bank. They are authorised to accept deposits from the public repayable after not less than five years and these deposits are not to exceed in the aggregate the Corporation's paid-up capital. The repayment of the principal and the minimum rate of dividend are guaranteed. Restrictions are to be imposed on the distribution of profits. The Corporation may transact the following business:—(a) the guarantee of loans raised by industrial concerns in the public

market for not more than 20 years; (b) the underwriting of the issue of stocks, shares, bonds or debentures by industrial concerns; (c) the granting of loans or subscribing to debentures of industrial concerns repayable within 20 years; and (d) other business arising or ancillary to the above. The limit of accommodation to any industrial concern will be up to a maximum of one-tenth of the Corporation's share capital subject to a maximum of Rs. 10 lakhs.

It is, however, necessary to ensure that the funds are utilised primarily for the benefit of the small producer. This can be easily done if the cottage industries are organised on a co-operative basis.

The State Financial Corporation Act was amended in several respects in 1956. The Amending Act provides for: (i) setting up of joint financial corporations for two or more States or extension of the jurisdiction of a corporation to other State(s), (ii) acting of Corporations as agents for the Central or State Governments, or the Industrial Finance Corporation of India, (iii) granting of financial accommodation to industries against the guarantee of State Government, a scheduled bank or State Co-operative Bank, (iv) short-term borrowings by the Corporation from the Reserve Bank against Government Securities, and (v) inspection of the Corporation is by the Reserve Bank.

With a view to enlarging the scope of assistance provided by these Corporations, the State Financial Corporations Act of 1951 was further amended in March 1962. The Amendment Act empowers the Corporations to guarantee: (a) loans raised by industrial concerns from scheduled banks or State co-operative banks and (b) deferred payments due from any industrial concern in connection with purchase of capital goods within India The Amending Act also enhances the limit of accommodation in respect of public limited companies and co-operative societies from Rs. 10 to Rs. 20 lakhs. The scope of the definition of an industrial concern has also been enlarged so as to include hotel and transport industries and industrial estates Another important amendment seeks to strengthen the financial resources of the Corporation. They can now borrow from the Reserve Bank for 18 months (formerly 9 months). They can also borrow from the State Governments with the prior approval of the Reserve Bank and can accept deposits from the State Government and Reserve Bank, from a local authority or any other person repayable after 12 months instead of 5 years hitherto. The aggregate borrowing limit of a Corporation has also been enhanced from five times to ten times its paid-up share capital and reserve fund.

There are some other **differences between the I.F.C. and the State Financial Corporations. First,** whereas the I.F.C. can provide financial assistance only to public limited companies, the State Finance Corporations can grant loans to private limited companies, partnerships and even proprietary concerns. **Second,** while in the case of the I.F.C. only the Reserve Bank of India,

the Central Government, insurance companies and other institutional investors are allowed to subscribe to the share capital, in the case of the State Finance Corporations, the public can also subscribe to the share capital to the extent of 25% of the total.

Their Working. Since their inception up to the end of June 1963, the total amount sanctioned by the State Finance Corporations amounted to Rs. 59.30 crores and the amount disbursed to about Rs. 42.29 crores. The working of these corporations has been subject to various **criticisms**:

Firstly, though the corporations have utilised a substantial proportion of their resources for extending assistance to medium and small industries for a very long period, yet on an average, **large funds remain idle every year.**

Secondly, the gulf between the amount sanctioned and the amount disbursed is wide.

Thirdly, the total cost of borrowing from the corporations is rather high. A high rate of interest, 6 to 7% per annum, is usually charged by the corporations. Moreover, the borrowing concern has also to incur other expenses like stamp duty and registration fee, which come to about 3% of the loan borrowed. Thus the total cost of borrowing varies between 9 and 10%, which is perhaps prohibitive for small concerns, which, therefore, try to tap other sources.

Finally, perhaps as a consequence of low utilisation of resources, the corporations are faced with deficits in their earnings which compel them to rely heavily on the State Governments for meeting their dividend liability. The amount of such liability is large in almost every case and its liquidation will remain a problem for a long time to come. Since their inception and till the end of June 1962, the total amount of loans and advances sanctioned by the State Financial Corporations amounted to Rs. 46.42 crores of which Rs. 31.37 crores had been disbursed.

The emergency and the stagnant capital market have had an adverse effect on the credit resources of the Corporations, and they were able to raise only Rs. 1.22 crores in 1963 against Rs. 8.17 crores in 1962. The Corporations' success in attracting deposits from the public has been negligible except in Madras, where the doubtful expedient of a higher interest rate had to be offered. In the improving climate, it is necessary that these Corporations should play a larger role in the capital market. But, most of all, what is needed is more enterprising lending and a more continuous watch over the progress of a project assisted, not so much to ensure the safety of the funds lent but to nurture the project by further help where necessary.

The Reserve Bank's Working Group on State Financial Corporations (appointed in 1962 and reporting in 1964) found some faults in their working and made a number of useful recommendations to make them more effective. The joint performance of

the fourteen corporations was adjudged by the group as much below expectations for two main reasons: (1) They have not been able to acquire resources commensurate with the dimensions of the tasks set for them. (2) They have shown little enterprise and initiative in diversifying their investments. The lack of resources is due to (a) meagre capital contribution from the general public because of low dividend return, non-marketability of shares and predominantly official stamp of these institutions and (b) undiversified nature of their bonds being held mostly by the L.I.C. and the State Bank of India.

In order that the Corporations may be able to make a significant contribution to the diversification of industrial structure, the Working Group has highlighted the need for a reorientation of the Corporations' criteria for assessment of loan applications in favour of new industries with greater consideration given to the earning prospects of an industrial unit than to the security of the loan. The Corporations should invest more in equity and debentures than in loans so that they participate more effectively in capital formation for private industry. But this will need considerably the strengthening of the Corporations' resources. For this purpose the Working Group made several suggestions to promote the growth of these Corporations to the stature of development banks for assisting medium and small-scale industrial undertakings. For instance it suggested that the Corporations should evolve a multiple interest rate structure tailored to the risk-rating of the loan propositions, their size, periods and other factors instead of charging a standard rate. The Corporations should take steps for a more effective mobilisation of funds by way of share capital, deposits, bonds and also other additional sources of finance. A higher rate of dividend would attract share capital; the bonds can be broad-based by the device of differential rates of interest and maturity pattern so that medium-dated bonds are made more attractive to banks and other financial institutions. As for deposits, an edge in interest rate, ability to negotiate deposit receipts for purposes of borrowing and an increase in the permissible level of deposits to twice the paid-up capital are some of the suggestions made by the Group. Also, the Government and the Reserve Bank should directly augment the resources of the S.F.C.s. Creation of the National Industrial Credit (Long-term Operations) Fund was recommended on the analogy of the National Agricultural Credit Fund. Fiscal incentives like a higher level of exemption for transfers to special reserves, surrendering of dividends by the States and the Reserve Bank and of the outstanding dues on the subventions account were also recommended. Their resources thus increased it should be possible for the Corporations to expand their operations considerably.

National Industrial Development Corporation

The Corporation was set up in 1954, as a private limited company with an authorized capital of Rs. 1 crore and a paid-up

capital of Rs. 10 lakhs, subscribed entirely by the Government of India. It can increase its working capital by issuing shares and debentures. Its primary function is to finance industries only in so far as they are incidental to planned development. It gives priority to the manufacture of capital goods and takes up the study and investigation of industrial schemes. In implementing them, it tries to secure, where possible, the maximum use of industrial equipment, experience and skill available in the private sector. It even sets up industries which would in their turn lead to the growth of ancillary industries in the private sector. Till the end of March 1964, loans amounting to Rs. 28.2 crores were sanctioned by the Corporation. Besides, it is **providing short-term assistance to jute and cotton textile industries** for acquiring machinery on hire-purchase basis. Up to the end of March 1963, Rs. 54 lakhs had been sanctioned for this purpose.

Industrial Credit and Investment Corporation of India

It was registered as a private limited company in January 1955, for the purpose of assisting industrial enterprises within the private sector. The authorised capital of the Corporation is Rs. 25 crores. The issued capital at present is Rs. 5 crores. Of the initial issue of Rs. 6 crores, 2 crores were taken up by several Indian banks and insurance companies, Rs. 1 crore by British and other Commonwealth banks and insurance and other companies, and Rs. 50 lakhs by U.S. corporations and nationals. The remaining Rs. 1.5 crores were offered for public subscription in India and the issue was over-subscribed. The Corporation is empowered to borrow, provided the amount borrowed and guaranteed by it does not exceed three times the aggregate of its unimpaired capital, its surplus and reserves and the outstanding advance from the Government of India.

The main functions of the Corporation are: (1) to assist in the creation, expansion and modernisation of industrial enterprises in the private sector; (2) to encourage and promote participation of private capital, both internal and external, in such enterprises; and (3) to encourage and promote private ownership of industrial investment and the expansion of investment markets. In pursuance of these functions, it (i) provides finance in the form of long or medium-term loans or equity participations; (ii) sponsors and underwrites new issues of shares and securities; (iii) guarantees loans from other private investment sources; (iv) makes funds available for reinvestment by revaluing investments as rapidly as prudent; (v) furnishes managerial, technical and administrative advice and assists in obtaining managerial, technical and administrative services to Indian industry.

There are a few **difficulties facing the Corporation:** (a) There is a **substantial backlog of approved proposals** which still require a variety of Government consents and approvals. The need for these consents and approvals causes considerable delay

in the Corporation in actually assisting its clients; (ii) **the low level of Corporation's reserves**; in five years it has been able to set aside only Rs. 24 lakhs from net profits. This sum is woefully inadequate for a Corporation which is expected to take substantial risk in the financing and establishment of new enterprises; (iii) the tax authorities are not treating the capital gains of the Corporation as capital gains, but are taxing them at full rates. This means a heavy burden on the Corporation.

Since its inception in 1955 up to the end of 1963, the Corporation had sanctioned aggregate assistance of Rs. 83.20 crores to 248 companies of which Rs. 38.79 crores had been disbursed.

National Small Industries Corporation

This Corporation was established in February 1955 with a view to **assisting, financing, protecting and promoting small industries in India**, namely, those that ordinarily employ less than 50 persons working with power, or less than 100 persons without power, and having capital assets not exceeding Rs. 5 lakhs. It has been registered as a private limited company with an authorised capital of Rs. 10 lakhs to be provided entirely by the Government of India, which will also give suitable loans to provide it with working capital.

The main functions of this Corporation are: (i) to secure a reasonable share of Government orders for small-scale units; (ii) to provide such units as may have secured such orders with loans and technical assistance necessary for fulfilling such orders and for manufacturing articles of the type and standards required; (iii) to try to secure co-ordination between large-scale and small-scale industries so as to enable the latter to manufacture ancillaries, components and other articles required by the former; (iv) to underwrite and guarantee loans from banks and similar institutions to small-scale units; and (v) to supply machinery to small industries on a hire-purchase system. These activities are financed by loans and grants from the Central Government. Since its inception in 1956, the Corporation has accepted so far (1963) about 10,000 applications covering about 40,000 machines valued at Rs. 39 crores. But the disturbing feature is that the lion's share of the Corporation's assistance has gone to big cities like Bombay, Calcutta, Delhi and Madras.

Refinance Corporation

It was felt for a long time that there should be an institution to provide medium-term credit to industry. Accordingly, Refinance Corporation was set up in 1958. Fifteen leading banks and the Life Insurance Corporation participated in its share capital. The Corporation will extend credit through these banks and not directly. It has an authorised capital of Rs. 25 crores and issued capital of Rs. 12.5 crores. The Government agreed to lend about Rs. 2 crores to the Corporation. The Corporation provides re-lending facilities against loans by banks to industrial concerns—loans to be eligible for re-discount must be for 3—7 years

and not exceeding Rs. 50 lakhs. Since its inception in 1958 and up to the end of March 1964, the Corporation sanctioned assistance for Rs. 55.1 crores. Within a short span of five years the Corporation had attained viability and was able to pay interest at full rate of 4% on its borrowings from the Government. The Corporation filled a necessary gap. In its absence, the commercial banks were obliged to take on themselves the responsibilities that normally and prudently fell out of their sphere. It is a pity that the newly created Industrial Development Bank took over the Refinance Corporation in September 1964.

Industrial Development Bank

The Industrial Development Bank has been established as a subsidiary of the Reserve Bank of India to step up industrial growth in the country. It started operations in July 1964. It is intended to supplement and coordinate the activities of the existing institutions in the field of industrial finance. The Bank, among other things, (a) grants direct loans to industry, (b) subscribes to the shares and debentures of industrial concerns, (c) provides refinance facilities, (d) underwrites new issues of shares, (e) guarantees deferred payment of credits for exports, (f) undertakes marketing and investment research, (g) carries out techno-economic studies and (h) promotes the establishment of new enterprises, especially key industries. It has an authorised capital of Rs. 50 crores which may be later raised to Rs. 100 crores. The paid-up share capital is Rs. 10 crores.

This will be supplemented by an interest-free loan of Rs. 10 crores from the Central Government. The Development Bank will also be entitled to borrow from the Reserve Bank for short periods against trustee securities, for periods up to 5 years against bona fide commercial bills or promissory notes bearing two good signatures and on long-term out of the National Industrial Credit (Long-term Operations) Fund established by the Reserve Bank with an initial credit of Rs. 10 crores to be augmented by annual contributions of Rs. 5 crores. There is a provision for the merger of the Industrial Finance Corporation with the IDB.

The Industrial Development Bank fulfils an urgent need. The capital market in India is unable to meet the requirements of the Third Plan and the capital needs of private industry in the Fourth Plan will be even more stupendous. There is no doubt that the IDB will be an invaluable catalyst of industrial expansion. Apart from its own capital, other funds in the form of interest-free loans from the Reserve Bank will be available to it. It will have, besides, more massive resources to draw upon. The more important of these are (a) the National Industrial Credit (Long-term Operations) Fund to be created by the Reserve Bank out of its own profits and (b) Development Assistance Fund to be built up by appropriations from the general revenues of the Central Government to enable the Development Bank to provide assistance for projects needing heavy initial investment and long

gestation period which are unable to draw upon conventional resources. The Development Bank will be able to function successfully both as a refinancing institution and as a direct lender to industry. It took over in September 1964 Refinance Corporation in terms of the Industrial Development Bank of India Act, 1964. The limit of refinance of Rs. 50 lakhs for any one concern has been raised to Rs. 100 lakhs and the upper limit of Rs. 50 lakhs in respect of refinance for medium-term export credits has been abolished.

Unit Trust

The Unit Trust started functioning from July 1, 1964, when the units were made available for sale to the public. Each unit is of Rs. 10/- and the units can be purchased in ten or multiples of ten. Its capital of Rs. 5 crores has been contributed half by the Reserve Bank of India and the other half by Life Insurance Corporation, the State Bank of India and its subsidiaries and scheduled banks. It will provide a balanced portfolio of investments to small investors who would like their meagre capital to be so invested as to minimise the risks and maximise the rewards. It will place at their disposal expert knowledge of investment which he lacks. The nominal or face value of the units will not be more than Rs. 100. The Units will also be available on the tap. This will facilitate investment by middle classes and wage-earners. The units will be freely transferable and can be pledged with the banks for borrowing money. The trust itself will be prepared to buy them back either for retirement or for resale. The income derived by the unit holder will be exempted from income-tax. This will make the investment in the trust attractive. The unit trust will thus siphon the community's savings into the organised capital market. But its meagre capital of Rs. 5 crores seems to be an unimaginative response to a high challenge. What we need is a large number of such trusts in the private sector working under state control to ensure safety of investment but having a healthy rivalry amongst them.

Problem of Foreign Capital

The Reserve Bank of India in a survey estimated the amount of total foreign investment in India as in June 1948 at Rs. 320.42 crores. Of this amount, Rs. 66.8 crores represent portfolio investment (i.e., without control) and Rs. 253.62 crores direct investment (i.e., with control). Of this the share of the U.K. is Rs. 230 crores, i.e., 72%, and that of the U.S.A. Rs. 18 crores. Later estimates by the Reserve Bank put it at Rs. 421 crores as on 31st December, 1953, of which 80% was investment. The bulk of investment (about Rs. 350 crores) was from the U.K., and from U.S. it was equal to Rs. 31 crores. According to an article in the Reserve Bank Bulletin, May 1961, the net foreign investment in the private sector increased by 153 crores from Rs. 456.1 crores in 1955 to Rs. 610.5 crores in 1959. According

to a Reserve Bank study,[1] the total outstanding foreign investments in private sector (other than banking) amounted to Rs. 690.5 crores at the end of 1960. Of this private sector accounted for Rs. 566.4 crores and official sources for the balance of Rs. 124.1 crores. Country-wise, U.K.'s share of Rs. 446.4 crores or 65% is the largest; the U.S. investment accounted for Rs. 113 crores or 16%.

Advantages of Foreign Capital

Foreign capital confers considerable benefit on the country using it. It may even be indispensable for accelerating economic development of a country where there is dearth of indigenous capital. All the Dominions, the U.S.A. and Japan borrowed capital from abroad for the exploitation of their natural resources. Foreign capital undoubtedly adds to the national wealth of the country. Even if profits go out, the wages constitute an important gain. The use of foreign capital results in the creation of assets which may more than cover the payment of capital and interest. The railways and canals provided with foreign capital will be almost a perennial source of national income when foreign capital has been repaid. Foreign capital, therefore, can be an important means of bringing about economic prosperity.

The foreign capitalist generally bears the losses in the pioneering stage and this is a gain to the country. Later, the indigenous capital can take advantage of the established lines and go ahead. We have seen how the early attempts in India in glass, and iron and steel industries failed with losses to foreign entrepreneurs.

Still another advantage is the technical knowledge brought into the country. The foreign capitalist sets up an efficient organization and introduces a new technique. If this is gradually imparted and passed on to the entrepreneurs in the country, the gain is undoubtedly great. But it is a big 'IF.' If the foreign capitalist sedulously guards the business secrets, no such gain results to the country.

Abuses of Foreign Capital

The use of foreign capital is generally associated with certain evils. The greatest evil is of a political character. It is said that "Flag follows the Trades." A country using foreign capital soon passes under foreign domination and several political complications arise Egypt and China have suffered from this domination. In India also vested interests were created. They did not identify themselves with the country they worked in, and were at once alarmed whenever there was a move to grant any political power to India.

Another drawback is that the natural resources of the country may be exploited for the benefit of a foreign country and to the everlasting detriment of the country concerned. Some would prefer to wait till indigenous enterprise and capital are forth-

1. Reserve Bank Bulletin, October 1962.

coming, and not develop the resources of the country at all till then.

Foreign capital with foreign control is especially dangerous in the case of "key" industries and industries connected with national defence. This may constitute a serious threat to the independence of the country. It may prove too high a price for economic development.

The recent Reserve Bank survey confirmed the view that foreign investment involved foreign ownership. High and important positions in foreign concerns were reserved for their own nationals and Indians had to be merely content to be "hewers of wood and drawers of water." No apprentices were trained, and technique and processes were zealously kept a secret. In such a case, the country derives little benefit from the use of foreign capital and suffers from a galling sense of inferiority.

But it is well to remember that these objections are against foreign control and not foreign capital as such. Foreign capital without foreign management and foreign control may be quite welcome and may be conducive to the economic well-being of the country. If, therefore, foreign capital is used under proper safeguards, there is no harm and much good may result instead.

Foreign Capital Policy

In a resolution issued on April 6, 1948, the Government announced its policy regarding participation of foreign capital. It was stated that, as a rule, the major interest in ownership and effective control of an undertaking should be in Indian hands. Feeling the great need of capital, the Government is now prepared to let foreign capital have control for a limited period.

The position at present is that there is a big gap between domestic saving and our capital requirement. Foreign capital is badly needed for accelerating economic development in various fields, and technical know-how can be obtained only along with foreign loans. That is why India's policy towards foreign capital is no longer forbidding. Mr. C. D. Deshmukh, the then Finance Minister, explaining this policy in April 1954, in the Indian Parliament, said, "Foreign capital was desirable and welcome provided it was of the right kind and was sought to be invested in the right field." As regards any potential danger, he said, "In independent India Government had adequate powers to ensure that foreign capital did not use its position to the detriment of the national interest....Before a project involving foreign investment was sanctioned, it was subjected to a process of screening to ensure that it would further the interests of the country's economy."

The late Prime Minister, Mr. Nehru, in his policy statement made in the Constituent Assembly in April 1949, tried to set at rest all the apprehensions of the foreign capitalist. The main features of this new policy are:—

(a) no discrimination would be made between foreign and

Indian undertakings in the application of general industrial policy;

(b) reasonable facilities consistent with foreign exchange position would be given for the remittance of profits and repatriation of capital; and

(c) in case of nationalisation, fair and equitable compensation would be paid.

The most suitable field for foreign capital consists of (i) public-projects requiring foreign capital equipment and technical knowledge; (ii) new industrial undertakings, where indigenous enterprise is not forthcoming; and (iii) where domestic production is not sufficient to meet domestic demand and indigenous industry is not expanding sufficiently rapidly.

The system of joint enterprises in which foreign industrialists and Indian business men collaborate can also be commended. The number of such collaborations is multiplying. Some examples are: the Birla-Nuffield Combine for manufacture of motor cars, the Tata-Imperial Chemical Industry partnership for the manufacture of dye-stuffs, the Sen-Raleigh partnership for the manufacture of bicycles and the Tatas and German automobile manufacturers, Daimler-Benz for the manufacture of motor trucks and buses.

Such agreements of joint participation are subject to Government approval to ensure an adequate share of national capital, facilities for the training of Indians and the disclosure of patented processes of Indian associates. Many foreign firms have taken in Indian capital of their own accord to the mutual advantage of all concerned. The Indian capitalists learn the technical know-how and the foreign capitalist takes advantage of the Indian patriotic sentiment. But foreign capital is frightened off by talk of compulsory Indian percentages and of compulsory Indian majority holdings.

The Government has also joined partnerships with a Swiss firm for setting up a machine tools factory, a German combine and a British combine for setting up steel plants. In April 1956, the offer of a Japanese firm to manufacture multi-unit electric coaches in partnership with an Indian firm was accepted.

In addition to equity capital, fixed interest capital can be obtained from official and semi-official institutions like the International Bank for Reconstruction and Development and the Export-Import Bank of the U.S.A. The International Bank has given financial aid for the execution of agricultural and power projects. It should also be requested to assist in the carrying out of specific industrial schemes of high priority requiring large capital. The World Bank gave a loan of $31.5 million to Indian Iron and Steel Co., $60 million (till 1961) to the Industrial Credit and Investment Corporation and $8 million for specified industrial projects. A loan of $14.7 million was obtained by the Tatas

for Trombay Electric Project. Foreign aid has also been available under Point-Four Aid Programme from U.S.A. and the Colombo Plan from the Commonwealth countries. But this aid is not very large, especially because our foreign policy is not to the taste of these countries.

Should foreign capital come in the form of direct investment or a loan? In the present circumstances investment is better than a loan. Private foreign investment usually brings with it the technical know-how which loans do not. In the case of a loan, consultants' reports are essential. But their cost is heavy unless the consultants themselves have a stake in the industry. The stake of the foreign capitalist is therefore a safeguard.

In February 1961, was set up the Indian Investment Centre with the help of the U.S. Technical Co-operation Mission. The Centre will advise and assist Indian industrialists on measures necessary to attract private foreign capital. It will promote wider understanding in the main capital-exporting countries regarding conditions, laws, policies and procedures for investment in India. The Centre will maintain services for supplying information to Indian entrepreneurs and prospective foreign investors on industrial capacity, production, trade, markets, labour conditions, resources, power supply, etc. The Centre will also supply information to foreign investors on particular projects.

The climate for investment in India is excellent. India is rapidly expanding and various projects—big, small and medium-sized—are being put up. New floatations are easily subscribed to and very often they are quoted at a premium. In the case of many recent floatations, the equity share is quoted at 20, sometimes 30 or even 50 per cent premium within a month. The Government has given great encouragement to new business men through an income-tax rate development rebate and high depreciation allowances. For all practical purposes, there is tax holiday for the first five years for a new venture and salaries of foreign technicians are exempted from income-tax for the first three years. Products manufactured in India have a protected market and Government and semi-Government institutions advance money through equities, preference stocks and loans. Besides, the margin of profits is very good. All this should offer sufficient attraction to foreign capital.

Capital Formation[1]

The Indian capital market till recently suffered from paucity of funds. The Indian capital was said to be on strike. The problem became acute after 1947. Between 1919 and 1938, the rate of investment was 7% of the national income. But, according to one estimate, 1946-47 and 1947-48 were years of dissavings. However, the problem is not a new one. The Indian Industrial Commission (1916-1918) referred to "the reluctance of the Indian investor to

1. For a fuller study *see* Fiscal Commission Report, 1949-50, p. 198.

risk his money in new undertakings....unless they were related to industries which were already established and practised extensively." The non-availability of adequate capital still continues to hamper industrialisation of the country.

Capital formation is a long process and it involves three broad stages: (1) the creation of savings which depends on the will to save and the power to save;

(2) mobilization and canalisation of savings converting them into investible funds which depends on the efficiency of the banking system; and

(3) acquisition of capital goods which depends on entrepreneurial enterprise.

Among the hurdles in this process of capital formation may be mentioned that (1) a part of the savings may be hoarded or exported and is, therefore, not available for investment. Further, some of the savings available for investment are utilised by the owners themselves for buying capital goods and they are thus ploughed back into their business. There may also be a time-lag between the accumulation for funds and the acquisition of capital goods which is capital formation proper.

There are several factors which are said to have militated against capital formation in India in recent years. The dread of nationalisation is said to be responsible for deterring the investor from industrial enterprise. In view of the Industrial Policy Statement of 1948 and provision in the Indian Constitution (Article 31) against nationalisation without compensation there should be no fear on this score. It is only interested propaganda which is keeping back the Indian investor.

(2) High level of taxation is also said to discourage investment. The Liaquat Ali Budget of 1947-48 was the first blow at capital formation in the country. In the words of the Reserve Bank Report, "There seems little doubt now that the severity of the last budget is defeating its own purpose and hindering the formation of capital for production purposes." Subsequent Finance Ministers tried to undo this mischief. Accordingly, several rebates and concessions were offered to the prospective industrialist.

(3) Speculative activities at the stock exchange have stood in the way of capital formation. The proper function of the stock exchange is to provide liquidity and encourage the free flow of investible funds. But, instead, they have facilitated gambling resulting in wide oscillation of prices. The heavy fall in stock exchange quotations, since 1946, has certainly had depressing effect on investment. The operations of the speculators have deterred bona fide investors.

(4) The malpractices indulged in by some managing agents have also hindered capital formation. Unscrupulous managing agents form companies and then break them enriching them-

selves in the process. The unwary investors are ruined, and this scares away other investors.

(5) There is also said to be a shift in wealth distribution. Income is flowing into the hands of such classes as are not in the habit of saving and investing. The classes, e.g., middle class, who have this habit, have been ruined by inflation. Their power to save has vanished.

(6) Control of capital issue also worked in such a manner in the post-war years as not to direct funds towards useful investment.

It is essential to have proper appreciation of these factors and create a suitable climate for capital formation. This is the only way to accelerate industrialisation, especially because foreign capital is not forthcoming adequately enough in spite of a good deal of wooing on the part of our Government.

In the early years of industrial development, Japan saved 50% of her annual income. This meant much austerity Mr. Lewis in his **Principles of Planning** lays down that 15—20% of the national income can be used safely for gross investment. In India, however, according to a paper prepared in August 1955 by the Central Statistical Organisation, National Income Unit, net domestic capital formation was 5.2% in 1948-49, 5.8% in 1949-50, 6.8% in 1950-51, 6.7% in 1951-52, 6.7% in 1952-53, 6.8% in 1953-54. India must therefore save more and invest more in order to accelerate her industrial development. The recent response of private industry has been quite encouraging. The gross fixed capital formation in this sector has risen from a little above 6% in 1951 to as high as 16.5% in 1957.[1]

How to do it? Among positive measures, we may mention quick and sound development of banking and insurance institutions, vigorous savings drive, especially mobilisation of rural savings as suggested by the Rural Credit Survey Committee. To encourage savings to flow into channels of investment, stock exchange activities must be purified, chances of malpractices in the company management must be eliminated, investment trust should be established, industrial development corporations should be set up for planning, promoting and financing new industries and technical advice must be made available.

It is gratifying to note that measures on these lines are being taken or contemplated. The Planning Commission laid down the target of 50% rate of capital formation out of the additional production at the end of the Five-Year Plan. The Company Law has been thoroughly revised and improved. Industrial Development Corporation and Industrial Credit and Investment Corporation have been set up. Savings drive has been intensified. The response to government loans in recent years has been very en-

1. This fact was disclosed by Shri H. V. R. Iengar, Governor of the Reserve Bank, in a speech in Bombay on January, 7, 1959.

couraging. The Planning Commission proposes to step up Capital Formation to about 21% of the national income during the Fourth Plan from the estimated rate of 14% by the end of the Third Plan.

Managing Agency System

We have already mentioned that the Indian industry receives substantial financial assistance from the managing agents. A characteristic feature of the managements of Indian industries is the prevalence, almost universal, of the managing agency system. The managing agency is a partnership or a private limited company, formed for floating a concern and to take over its management. It is a curious appendage to the joint-stock organisation in India so as fundamentally to alter its character and working.

The raison d'etre of the system lies in the peculiar economic conditions obtaining in India, especially with regard to the availability of managerial talent and financial facilities. The shyness of Indian capital and consequent inadequacy of the amounts raised from the investing public, the late development of joint-stock banking, the absence of special financial institutions like issue houses, the lack of competent directorate and the practices of commercial banks relating to advances are some of the causes that have conspired to throw industrial enterprise in India into the arms of the managing agents.

Besides purchasing materials and machinery, selling finished goods and arranging for insurance of plant, buildings and stock-in-trade on behalf of the concerns they manage, the managing agents perform three principal functions: (1) pioneering; (2) running the routine machinery of the concern; (3) providing finance.

The managing agents do the preliminary prospecting to bring the concern into existence and place on its legs. They also carry on day-to-day business. Their financial interest in the concern is quite considerable. They are the principal shareholders and, besides lending substantial amount to the company themselves, they arrange for finance from the banks, where their personal guarantee is almost invariably necessary. It is also their reputation and standing which induce some moneyed people to place their money with the mill as a deposit. Of the total loans secured and unsecured of the Bombay cotton mills, advances by the managing agents at one time amounted to nearly 76 per cent.[1] At Ahmedabad, they overheld 25 to 50 per cent of the shares and their share in the deposits was 20 per cent.[2] **The managing agents are, in short, promoters, financiers, managers and agents all rolled in one.**

Criticism of the Managing Agency System

The managing agency system has been subject to a close ex-

1. Report of the Textile Labour Enquiry Committee, 1938, p. 53.
2. Report of Ahmedabad Millowners' Association, 1935, p. 188.

amination from time to time. There are two sides: the evil and the good.

Merits

Certain advantages have been claimed for the managing agency system. The good managing agents have zealously guarded their reputation for integrity and fair dealings, and their competence to manage the concern is unquestioned. They have made this system yield the best of results. In particular, they have made the advantages of integration available to the various concerns under them. Various economies, internal and external, have been realized because one agency sells goods and buys materials, machinery and mill stores on behalf of a number of concerns and the same office manages them. Financial co-operation among various concerns has also been rendered possible, for the surplus funds of one concern are lent out to another which may be in need.

The managing agency system combines the advantages of a partnership with those of the joint-stock organization. The keen self-interest, initiative, virility, resourcefulness and adaptability of the partnership type of organisation are harnessed into the service of a joint-stock company.

We may agree with the view of the Industrial Commission that the system has a greater list of successes to its credit than can be shown by ordinary company management under individual managing directors. In the words of the Fiscal Commission (1950), they have "rendered signal service to Indian industries during the last 75 years. In the early days of industrialisation when neither enterprise nor capital was plentiful, the managing agents provided both, and Indian well-established industries like cotton, jute, steel, etc., owe their present position to the pioneering zeal and fostering care of several well-known managing agency houses."

Demerits.

There are, however, several evils which are attributed to the managing agency system. Among these evils may be mentioned the subordination of the interests of the shareholders to those of the managing agents, opportunities for fraud and exploitation and the clash between the interests of the various firms under the same managing agency.

The system has hindered the growth of independent and capable directorate. The directors are mere figure-heads and puppets in the hands of managing agents. Out of 715 directors of Bombay cotton mills in 1925, 95 were agency directors.[1] The managing agents decide, and the directors register these decisions. M. J. A. Wadia, a director of 13 cotton mills, stated before

1. Rutnagar—*Bombay Industries, Cotton Mills*, 1927, p. 253.

the Tariff Board in 1927, that if the directors took active part they had to go.

The development of sound relations between the industry and the banking system has also been hindered, for the banks lend on the guarantee of the managing agents and not on the intrinsic strength of the concern.

Another count against the system is that the agency firms have too many concerns under them. In the words of Bihar and Orissa Banking Enquiry Committee, "They have got too many irons in the vast and uproarious fire of their activities, their outlook is too wide and the centre of their operations far too removed and financial scale too large. Andrew Yule and Co., Calcutta, for example, at one time managed 54 concerns. The biggest managing agency is now Bird and Company which manages 40 joint-stock companies. Seventeen top managing agents control the biggest industrial enterprises. They control 10—40 companies each. Big and giant-size concerns having paid-up capital of Rs. 25,00,000 are managed by agencies whose paid-up capital basis is small, not exceeding Rs. 1,00,000.

In the hands of unscrupulous agents, the system had led to gross abuses like receiving secrets and illicit commissions, embezzlement, deliberately bolstering up the share values and then unloading at the top level compelling the market "to hold the baby", callous disregard of the interests of the company and hundred and one ways of exploiting the ignorant and the unwary investor. Mr. C. D. Deshmukh, the then Finance Minister, while replying to a debate on the Indian Companies Amendment Bill in September 1951, said that he had before him about a hundred cases as representative sample of various acts of mismanagement by managing agents. Among these he mentioned loans to private parties without security for purposes unconnected with the legitimate objects of the company, issue of debentures for investment in other concerns, grant of non-trading advances to nominees of managing agents, grant of loans to managing agents on current account, interlocking of shares, appointment of managing agents or allied organisations as buying and selling agents on unconscionable terms, accumulation of unrealised book debts, etc.

In the words of the Planning Commission, "Widespread abuses in respect of purchases of raw materials, sales of finished products and interlocking of financial transactions have come to light. Above all, a number of managing agency firms have failed to make improvements in their administrative set-up, factory management, purchase and sales organisations, system of accounting, etc., which are essential for industrial efficiency".[1]

It must also be said that the system is very expensive and the Indian industry can ill-afford to bear its cost. As the concern becomes well established and the period of the risk is over,

1. Planning Commission Report, 1951, p. 147.

the remuneration of the managing agents may well be scaled down.

Conclusion. We might say in conclusion that the managing agency system has conferred undoubted benefits on Indian industry. That there are serious evils associated with it is also beyond question. It is really the question of the type of persons who manage it. Good managing agents have produced good results, whereas dishonest and inefficient managing agents have spelt ruin to the industry they professed to manage. The system should therefore be mended and not ended.

It is essential that the managing agents should cultivate a sense of responsibility, public spirit and scrupulous regard for the concern they manage and should discard get-rich-quick methods. They should explore new avenues of industrial development and pioneer new concerns. Those who are conservative and are reluctant to launch new ventures should have really no place.

Managing Agency Reform

Efforts have been made in recent years to reform the managing agency system by amending the Company Law. Several improvements were effected by the Indian Companies Amendment Act (1936) which has been called the Magna Carta of Indian shareholders. According to this Act, the term of the managing agents was fixed for 20 years, but could be renewed. They can be removed earlier if convicted of certain offences or if judged insolvent.

This was undoubtedly a great improvement. But the managing agents could still act on behalf of several similar concerns and their interest in all may not coincide. As purchasers of the goods of, and sellers to, another company, they could still make illicit gains.

Several other evils still continued. There was regular trafficking in management rights regardless of the interests of the shareholders. Legal subterfuges were adopted to exact huge amounts by way of compensation. The new managing agents tried to enrich themselves by all possible devices.

The Indian Companies Act was therefore again amended in September 1951, designed to prevent trafficking in managing agency rights and cornering of shares in the open market with a view to acquiring control over the management of well-established companies for anti-social purposes. The Finance Minister described it as an 'interim first-aid measure.' No change could be made in the personnel and terms of the managing agency without the previous permission of the Central Government.

Company Law Amendment Act, 1955. Still the Indian Company Law did not provide adequate safeguards against fraud and other malpractices indulged in by the unscrupulous Managing Agents and the directors. A thorough revision was called

for to close the loopholes. With this end in view, the Company Law Committee, presided over by Mr. C. H. Bhaba, was appointed by the Government of India in October 1955. One of the basic principles on which its recommendations are based is that the company law, both in regard to the formation and management of joint-stock companies, should be such as would ensure the maintenance of a minimum standard of behaviour in company promotion and management but should not impose needlessly irksome or rigid rules which may hamper legitimate business or initiative or enterprise.

As for the managing agency system, the act made amendment in the existing company law in regard to the appointment of Managing Agents, their conditions of service, their remuneration, their powers vis-à-vis the directors and the activities of the Managing Agents in respect of loans, contracts, sales and purchases made on behalf of the company.

The Finance Minister said that the overall objective of the Bill was one of growing hedges rather than fashioning fetters for private enterprise. Here it was a question of maintenance of law and order, so to speak, in the private sector as well as question of its development on sound and healthy lines.

Indian Companies Act, 1956. This Act is a comprehensive measure aimed at consolidating and amending the previous company law so as to make it largely in conformity with the recommendations of the Company Law Committee. The Act is designed to ensure the constitution of independent Board of Directors representing the management as well as the shareholders but without the dominance of the former over the latter. The main provisions of the Act are given below:—

(i) The managing agents' appointment must first be approved by the general meeting and then by the Central Government. Their term is not to exceed 15 years in the first instance and 20 years in case of reappointment. All managing agents shall cease on August 15, 1960, unless reappointed in accordance with the provisions of the Act. No appointment shall be heritable or devisable by will.

(ii) A managing agent may be removed by a company in case of fraud, breach of trust, negligence or mismanagement or insolvency or conviction by a court of law.

(iii) The managing agents must work subject to the superintendence, control and direction of the Board of Directors. This is to prevent malpractices and abuse of authority by the managing agents.

(iv) The number of directors nominated by the managing agents on the Board of Directors shall not exceed two when the number of directors is five and one when it is less than five. This is to ensure an independent directorate.

(v) No managing agent can act for more than 10 companies after August 1960.

(vi) Inter-company loans under the same managing agents are prohibited.

(vii) Managing agents are debarred from engaging in business which competes with the business of the managed company.

(viii) Purchases of shares by one managed company of shares of other companies managed by the same managing agents is forbidden.

(ix) The powers of the managing agents regarding contracts, sales and purchases on behalf of the managed company have been considerably restricted.

Penalties have been laid down in case the managing agents violate the restrictions imposed on them by the Act.

(x) The maximum remuneration to be received by the managing agents has been fixed at 10% of the net profits (inclusive of any monthly salaries but exclusive of fees paid to the directors for attending Board meetings). Additional remuneration in excess of this can be paid if sanctioned through a special resolution of the company and also approved by the Central Government.

(xi) The Central Government has been given the power to declare that the managing agency system shall cease certain business at the end of three years from a specified date or on 15th August, 1960, whichever is later.

(xii) In order to secure the observance of the provisions of the Act, the Company Law Administration Department has been set up in the Government of India. An Advisory Commission has also been set up to advise the Government on such matters.

With a view to removing defects and deficiencies noticed in the working of this Act and also ensuring better fulfilment of its provisions, a Committee under the Chairmanship of Shri A. V. Visvanatha Sastri was appointed which reported in November 1957. A Bill based on these recommendations was passed by the Parliament. This Bill received the assent of the President in December 1960. The more important changes made by the Amendment Act are given below:—

(a) The Government is empowered to order a special audit of a company's accounts and if the Government thinks the affairs are not properly managed, it can order that the transfer of its shares shall be void during a period not exceeding three years.

(b) If 25% or more of the paid-up share capital of a private company is held by one or more corporate bodies it shall become a public company. Further, a public limited company can be converted into a private limited company only with the prior approval of the Central Government.

(c) Private companies which are subsidiaries of public companies are to be treated like public companies.

(d) No dividend shall be declared for any financial year except out of the profits of the company for that year.

With these reforms, it was hoped the managing agency system will work to the advantage of the country. The unanimous view of the Company Law Committee is that "under the present economic structure of the country the managing agency system will continue to have its uses for some time to come and that cleansed of the abuses and malpractices which have disfigured its working in the recent past, the system may yet prove to be a potent instrument for tapping the springs of private enterprise." However, the gradual elimination of the managing agency system is evident from the fact that out of 4,356 companies started recently (1960-61), 3,105 were proposed to be managed directly and only 50 by managing agents and 1,182 by managing directors.

The Company Law Administration report for the year ending March 31, 1962, shows a shift away from the managing agency system and the weeding out of "paper companies" kept for improper company methods and practices and the evasion and avoidance of the law. The number of new companies which adopted the managing agency system during the last six years was 1·2% of the total number of new companies registered during the period. Some of the more important malpractices relate to the appointment of directors as the sole sales representatives, the payment of excessive sitting fees, the withholding of auditors' separate reports from the notice of the shareholders and improper distribution of company assets, maintenance of books of account at places outside the State, investments of questionable soundness, excessive managerial remuneration and improper benefits paid to the directors and their executive.

A Companies (Amendment) Bill was passed in November 1963 aimed at safeguarding the interests of the investing public. It provides for the setting up of a tribunal which would go into the cases of persons found to have committed frauds and dishonest practices in the management of a company. If found guilty the Central Government would be empowered to remove them from positions of managerial authority even if their term of office has not expired. This provides a swift method of dealing with undesirable persons. It also provides for setting up a board to secure better and more effective administration of the Company Law. There is also a provision for converting loans given by the Central Government to joint-stock companies into shares of those companies. Thus financial assistance will be given by the Government not only through loans but also through equity participation. There is also a provision for regulating voting rights of trusts in respect of shares held by them in joint-stock companies so that these voting rights are not abused by the donors in their own interests.

CHAPTER XX

Industrial Policy

The State policy regarding industries has varied with the changes in the political complexion of the State. The Indian Princes in the past had actively interested themselves in the fostering of industries. The East India Company, too, in the beginning, actuated by commercial motives, stimulated and encouraged the development of certain manufactures. But pressure from England brought about a change in their policy, and they began positively to discourage Indian manufactures. The Indian Government and individual Indian administrators seemed to be strongly in the grip of the laissez-faire doctrine. "To regulate industry was pernicious, to assist it was futile and to participate in it was waste of public money."

The outbreak of World War I, however, brought about a change in this policy. The Indian Industrial Commission (1916) recommended that the Government should play an active part in the development of industries. The Fiscal Commission also made similar recommendations and the Government became definitely committed to the policy of protection for helping Indian industries.

Industrial Policy Statement, 1948

The dawn of Independence called for a new industrial policy. This policy was announced on April 6, 1948, in the Indian Parliament by the Minister for Industry and Supply. According to this policy, industries were roughly divided into four categories, viz., (i) exclusively government monopoly, (ii) government-controlled sphere, (iii) under State regulation, and (iv) private sector subject to general State control. The role of the cottage and small industries was made clear. It underlined the importance of satisfactory relations between labour and management. A sympathetic tariff policy was assured so as to prevent unfair

competition. The taxation system was to be reviewed and re-adjusted so as to encourage saving and productive investment.

The Government of India seemed to have taken a middle course. The industrial policy avoided both dogmas: the dogma of the Right, which says in effect that the State should never interfere with private enterprise, and the dogma of the Left, which believes in 100% collectivism and regards private profit-seeking as immoral. The Government sought to establish in India a Mixed Economy.

The Policy Resolution of 1948 emphasized the responsibility of the Government in the matter of promoting, assisting and regulating the development of industry in the national interest. It was also envisaged that, even in the field left for private enterprise, the State would progressively participate and intervene where the progress was unsatisfactory.

In pursuance of the policy announced in 1948, several concrete measures were taken. In October 1948, several tax concessions were given to the industry, such as abolition of import duty on industrial raw materials, a reduction from 10%* to 5% in the import duty on plant and machinery, exemption from income tax on profits of new industries for five years up to a limit of 6% on capital, liberalisation of depreciation allowances, etc. In July 1948 the Industrial Finance Corporation was also set up to provide finance for large-scale industries. The Krishnamachari Fiscal Commission was appointed in 1949. It recommended in 1950 a comprehensive fiscal policy. The Government accepted their recommendations and accordingly constituted the Indian Tariff Commission. The Tariff Commission has much wider powers than the old Tariff Board. Several industrial enterprises have also been started by the Central Government to fill up gaps in the industrial structure of the country. A chain of 25 national laboratories and institutes has also been set up to conduct research beyond the resources of our industrialists.

Policy Statement, 1956

During the eight years that passed since the declaration of industrial policy in 1948, several economic and political developments took place, e.g., enunciation of Directive Principles of State Policy, completion of the First Five-Year Plan, etc. These basic and general principles were given a more precise direction when the Parliament accepted in December 1954 the socialistic pattern of society as the objective of social and economic policy. Industrial policy, too, must be governed by these principles.

In order to realise this objective, it was considered essential to accelerate the rate of economic growth and to speed up industrialisation, to expand the public sector and to build up a large and growing co-operative sector. It has also become urgent to reduce disparities in income and wealth, to prevent private monopolies and the concentration of economic power in the hands of a small number of individuals.

Thus the State will have to assume progressively a predominant and direct responsibility for setting up new industrial undertakings. All this has necessitated a fresh statement of the industrial policy of the State in India.

Accordingly, the industrial policy was restated on April 30, 1956, by the Prime Minister in the Indian Parliament. The industries have been reclassified as follows according to the agency which has to develop them:

(1) Seventeen industries have been given in schedule A, the development of which is to be exclusive responsibility of the State against six reserved for the public sector in the 1948 resolution. The adoption of the socialist pattern of society for India and the urgent need for rapid and planned development require that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector. Besides, the industries which require investment on a scale which only the State, in the present circumstances, can provide have also to be in the public sector. Thus the State has to assume direct responsibility for the future development of industries over a wider area.

The industries included in this sector are heavy castings and forgings of iron and steel; heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture, etc.; heavy electrical plant, mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond; mining and processing of copper, lead, zinc, tin, etc. All new units in these industries will be set up only by the State unless the State has already approved the setting up of some units by private enterprise.

But this does not preclude the expansion of the exicting private units of the possibility of the State securing the co-operation of the private enterprise in the establishment of new units when the national interests so require. Whenever co-operation of the private enterprise is necessary, the State will ensure either through majority participation or otherwise that it has the requisite power to guide the policy and control of the undertakings.

(2) In the second category have been placed twelve industries which will be progressively State-owned and in which the State will, therefore, generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. These industries have been given in schedule B, and they are: aluminium and certain other non-ferrous metals; machine tools, ferro alloys, basic and intermediate products required by chemical industries, such as the manufacture of basic drugs, dyestuff, etc., fertilizers, synthetic rubber, carbonization of coal, road transport and sea-transport. For accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time, private enterprise will also have the

opportunity to develop in this field either on its own or with State participation.

(3) The remaining industries fall in the third category. Their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector in accordance with the programmes formulated in successive Five-Year Plans, by ensuring the development of transport, power and other services and by appropriate fiscal and other measures.

The State will continue to foster institutions to provide financial assistance to these industries and special assistance will be given to enterprises organised on co-operative lines for agricultural purposes. In suitable cases, the State may grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation by the State. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminating treatment to both of them.

The division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and public sectors. It will be open to the State to start any industry not included in schedule A and schedule B when the needs of planning require or there are other important considerations. In appropriate cases, privately owned units may be permitted to produce an item falling within schedule A. Whereas State trading will be undertaken on an increasing scale, the private sector will have the opportunity to develop and expand.

As regards the cottage and village and small-scale industries, the State would continue to follow a policy of supporting such industries by restricting the volume of production in the large scale by a differential taxation or by direct subsidies. But the aim of the State policy would be to ensure that the decentralised sector acquired sufficient vitality to be self-supporting and its development was integrated with that of large-scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of these industries. For this

purpose it will be essential that the technique of production should be constantly improved and modernized, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Establishment of industrial estates, and the rural community workshops, extension of rural electrification and the supply of power at cheap rates are bound to help these industries.

In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. For this purpose, transport facilities, power supply and other facilities will be made available to areas which are at present lagging behind industrially and where there is a greater need for providing opportunities for employment, provided the location is otherwise suitable.

Industrial Policy Statement 1956 clarified the role of the State in the industrial sphere and underlined its increasing importance. Although there is going to be an expansion of the public sector, yet the private sector is not squeezed out. With the exception of 17 industries in the public sector, the entire field has been left open for the private sector to expand itself in keeping, of course, with the overall national plan and objectives. Thus, uncertainty as to the precise role that the private sector is to play has been removed.

But the industrial set up envisaged is such that the key industries and the production of basic raw materials will be in the public sector on which the private sector will, therefore, increasingly come to depend. It is clear that the government is definitely committed to bring about rapid industrialization and will take initiative in setting up industries of the first two categories. The idea of State participating in equity capital is to ensure efficiency and rapid development.

Industrial Policy under the Five-Year Plans

In the Five-Year Plans, industrial development has been given a place of prominence especially in the Second and Third Five-Year Plans. Priorities for the development of various industries have been laid down and targets for their expansion have been set up. The most noteworthy feature of the Indian Government's industrial policy in the Plans has been the great emphasis that has been placed on the development of basic and capital goods industries. Foreign aid in capital equipment and technical personnel is also being earnestly sought. Offer of special concessions, etc., resulted in agreements with three leading foreign companies which started three oil refineries in the country with a total capital investment of over Rs. 50 crores.

Lately, greater attention has begun to be paid to small-scale and cottage industries also. The other steps of far-reaching importance for the development of industries have been for the pro-

vision of power and finance. Apart from enhancing the usefulness of the Industrial Finance Corporation, Finance Corporations have been set up in almost all States, and more important, the National Industrial Development Corporation, the Industrial Credit and Investment Corporation of India, the National Small-Scale Industries Corporation, the Refinance Corporation for Industries have been set up.

The Industrial Policy Resolution of 1956 formed an integral part of the Second Plan. The Third Plan proposes to continue this policy. In the words of the Third Plan: "The expansion of industry will continue to be governed by the Indian Policy Resolution of April 1956. As in the Second Plan, the roles of the public and private sectors are conceived of as supplementary and complementary to each other. For example, in the case of nitrogenous fertilisers whereas the public sector has already assumed a dominant role, it is envisaged that during the Third Plan the private sector will enter this field in a bigger way than in the past and supplement the efforts of the public sector....Similarly whereas the manufacture of bulk drugs will be organised mainly in the public sector, the further processing of bulk drugs will also be undertaken in the private sector." In the oil refinery both sectors are working shoulder to shoulder. It is quite clear that the industrial policy of the State is to accelerate industrial development but not on the expense of the private sector.

In each State there is a "Department of Industries" whose function it is to foster industrial development in the State. The States provide technical training, and arrange for industrial research not only in connection with the existing industries but also those which can be brought into existence. They also lend financial assistance in deserving cases. They try to improve the marketing organization, and act as bureau of industrial information. In their effort to improve the economic conditions of the State, they extend the necessary co-operation to other beneficent departments.

In August 1962 high-level review of the pattern of industrial growth in the country in the last few years has brought to light some serious imbalances and has indicated the need for re-thinking of the industrial policy. A re-assessment of the relative roles of the public and private sectors seems to be necessary to determine the extent to which the present industrial policy should be revised or modified. The policy laid down in 1956 resolution is considered flexible enough to allow for changes of marginal nature. A rigid adherence thereto would defeat the purpose of planned development. The rate of progress in certain high priority industries like cement and fertilizers has been inadequate. At the same time, industries of low priority have been permitted to develop in the private sector. This has resulted in the frittering away of valuable internal and foreign exchange resources. The Planning Commission is understood to have proposed that the activities of the private and public sectors should

be better co-ordinated within a specified sphere of high priorities. It may thus become necessary to extend the activities of the public sector to industries which have so far been more or less exclusively reserved for the private sector. This would bring about accelerated rate of growth of these high priority industries in which the private sector has not shown sufficient interest. The private sector may be compensated with the limited access to the preserves of the public sector especially where the public sector has failed to carry out its programme fully. Further licensing of low priority industries in the private sector may be stopped altogether. There exists a lot of uninstalled capacity in the private sector and they may be required to complete their programmes.

Industries (Development and Regulation) Act, 1951

In order to place industry on a sound footing, the Government passed, in October 1951, the Industries Development and Control Act. The Act was brought into force on May 5, 1952. It has conferred very wide powers on the Government under which it can take over any industry or start a new one, at the same time making it possible for private enterprise to develop industries in accordance with a centrally regulated policy

It provides for registration of existing enterprises and licensing of the new ones. The licence may impose conditions regarding location and minimum standards in respect of size, equipment and technique.

According to the rules framed under the Act, the Government can ask the industries to take steps to stimulate development, regulate production, use particular raw materials, fix standards of production, prohibit practices likely to reduce production, maintain accounts in a certain manner, submit returns, etc.

The Act empowers the Government to start investigation in the affairs of any industrial undertaking where there is either decline in production or deterioration of quality or bad management or when national resources have to be conserved. In the event of the industry not carrying out the Government directions, the Government is empowered to take over the management.

There is provision in the Act for setting up of a Central Advisory Council representing varied economic interests to advise the Government in the matter of regulation and control of industries. For each important industry has to be formed a Development Council on the lines recommended by the Planning Commission consisting of representatives of management, labour and technicians to improve its efficiency. The more important functions of the Development Councils are: (1) to recommend targets for production, to co-ordinate production programmes and to review progress from time to time; (2) to suggest norms of efficiency with a view to eliminating waste, obtaining maximum production, improving quality and reducing costs; (3) to recom-

mend measures for securing fuller utilisation of installed capacity; (4) to assist in the distribution of controlled materials and to promote arrangements for obtaining materials; (5) to promote or undertake scientific and industrial research and the collection and formation of statistics; and (6) to promote technical training.

The Act has been described a landmark in the country's industrial legislation. There is no doubt that State control involves red tapism, lack of drive and imagination, but is the performance of the industrialists in India better? As Mr. Morrison addressing his party conference remarked, "We want private enterprise to realise that their only possible justification is that they are efficient, economical and really enterprising and that they really work for the common good....Private enterprise which indulges in anti-social conduct will be pulled up short and sharp." Only by their honest and efficient management of industry can the businessmen render the Act superfluous.

In pursuance of this Act, a Central Advisory Council comprising representatives of industry, labour, consumers, etc., was established in May 1952. A Licensing Committee and several Development Councils were also set up. A bill to amend Industries (Development and Regulation) Act was passed in May 1953. It extends the scope of the Act to cover factories with investment of less than Rs. 1 lakh. It also gives Government wider powers to take over the management and control over industrial undertakings. By the exercise of these powers, the Government hopes to secure: (i) a proper utilisation of the country's resources; (ii) a balanced development of large-scale and small-scale industries; and (iii) a proper regional distribution of the various industries. At the end of 1963 nearly 160 industries came within the scope of this Act.

CHAPTER XXI

Industrial Labour

The rise of the wage-earning class in India has been very slow. Predominance of agriculture and attachment to land, the existence of joint-family system and the absence of successful industrial careers are some of the causes which prevented the rise of the industrial labour in India. Demand for Indian labour from Colonies and for plantations did raise some labour problems. But it is only after World War I that the Indian labour became conscious of its strength and rights. The influence of International Labour Organization also tended in the same direction. The appointment of the Royal Commission on Labour in 1931 and the advent of popular Ministries in 1937 and Independence in 1947 aroused a general interest in labour in recent years.

Labour Efficiency

Attempts have been made by some to represent relative inefficiency of Indian labour in terms of output or number of hands employed per unit of machinery. It is pointed out that an operator looks after 240 spindles in Japan, 540 to 600 in England and 1,120 in the U.S.A., but only 180 in India. Again, a weaver in India, it is said, attends to two looms, in the U.K. to 4—6 and in U.S.A. to 9. Sir Alexander McRobert said before the Industrial Commission that an English worker was 3.5 or even four times as efficient as an Indian worker. According to Sir Clement Simpson's calculations, 2.66 workers in a cotton spinning and weaving mill in India are equivalent to one operative in Lancashire.

But such statements do not reflect any innate inferiority of the Indian worker. More workers are employed in India per unit of machinery, because labour is cheap and machinery is dear The smaller output per worker is often due to the use of bad material, out-of-date machinery, bad control and defective management. Therefore, we cannot subscribe to these pseudo-

mathematical representations of the relative efficiency or inefficiency of Indian labour. Still the fact remains that Indian labour is less efficient as compared with, say, British or Japanese labour. Therefore, in India, while wages are low, labour is dear.

It is, however, gratifying to note that labour efficiency is improving in India. The average output per man-shift was higher in 1954 than in 1953 and the trends in 1955 showed that the improvement was being maintained.[1]

Causes of Low Efficiency

Apart from the enervating Indian climate, poor physique, illiteracy and lack of technical training and less disciplined character, the following are the main factors which lower the efficiency of Indian factory workers:—

(1) **Migratory Character.** Unlike in the West, where factory population is permanent, Indian labourers are mostly migrants from the villages. They leave the villages to escape from destitution and from numerous social disabilities or penalties for offences against the village moral code or from the money-lender. It may also be that they leave their village to improve their economic condition. The excessive pressure on land, the decay of village crafts and better opportunities in the city drive the people from the villages to the factory areas.

But they do not permanently sever their connections with the village, because, as the Labour Commission remarks, the driving force comes from one end of the channel only, i.e., the village end. "They are pushed and not pulled to the city." Strange environments of the city, its insanitary conditions, high cost of living and lack of employment for the whole family compel them to leave their families in the village to which they desire to return sooner or later.

The migratory character affects efficiency. The strange environments subject him to severe strain, and he falls a victim to sickness and disease. The fatigued body and overstimulated mind find dangerous relief in alcohol and gambling. Discipline, long hours of work in a factory to which he is not used, home-sickness and mental depression—all adversely affect his capacity for, and interest in, his work.

There is, however, the other side too. The villager brings to the factory better physique; combination of rural and urban life widens his outlook. The periodical visits to the village constitute a nice and chief holiday which improves his health. Besides, he becomes an instrument for the diffusion of knowledge in the village, and thus quickens the mind and enlarges the outlook of the people of his village. For all these reasons, the link with the village, according to the Labour Commission, is an asset of incalculable value.

1. See an article on the "Trend in the index of productivity of factory workers in India" published in the *Indian Labour Gazette*, November 1955.

(2) **Low Wages.** Efficiency of labour depends upon nourishing diet, proper housing and other amenities. But wages in India are too low to afford these. For the paltry sum that a worker in India gets, he cannot be expected to put in his best, and his efficiency must necessarily be low.

(3) **Low Standard of Living.** It follows from low wages that standard of living of the Indian worker must be very low. Inadequate and unbalanced diet, a dirty hovel to live in, shabby and insufficient clothing to cover his limbs, and complete absence of expenditure on medical aid, education and recreation must adversely affect his health and efficiency.

(4) **Long Hours and Tiring Factory Conditions.** A worker who has to work about 10 hours every day in the hot summer days or in severe winter in a congested and ill-ventilated factory and under an unsympathetic manager, cannot put in his best. Factory environments represent a marked contrast to his native environments. His efficiency must naturally suffer.

(5) **Unsatisfactory Housing.** A further cause of industrial inefficiency is the appalling condition in which the workers are housed. Insufficient accommodation, the dark and stuffy interior of the tenements and their squalid surroundings are the chief features of a working class colony. Single-room tenements seem to be the rule and most of them are unfit for human habitation. They are said to be "cold in winter, hot in summer and wet in rains." In these circumstances, the Indian labourer must continue to show a lower degree of efficiency.

(6) **Absenteeism.** There is a high turnover of labour in Indian factories. It is thought that a worker avails himself of 2-3 days' holiday in a month and 3-7 weeks in a year. It necessitates the employment of reserve with additional costs to the concern.

(7) **Indebtedness.** Being in debt has an adverse psychological effect on the worker and impairs his efficiency. The usual rate of interest varies from 76 to 150%. Once in debt, therefore, it is impossible for a worker to extricate himself. An inquiry in Madras showed that of 800 workers all but 13 were in debt on an average of about 6 months' wages.[1]

Other factors responsible for the relative inefficiency of Indian labour are the defective and inexperienced management, use of bad machinery and materials and weak labour organization. In the words of Dr. Vera Anstey, "When it is realised that the labourer who is obliged to live in such uncongenial, unhealthy and soul-destroying surroundings, is in any case illiterate, superstitious and untrained, it is to be expected—entirely without prejudice to his mental abilities—that at any wage, however low, his service can be really cheap?"[2]

1. Shiva Rao—*The Industrial Workers in India,* 1939, pp. 133-35.
2. Vera Anstey—*Economic Development of India,* 1936, p. 230.

In recent years, complaints have been made about marked deterioration in labour efficiency. The chairman of the Tata Iron and Steel Company pointed out, in his annual report in 1949, that the average output of steel per employee had fallen from 24—36 tons in 1939-40 to 16—30 tons in 1948-49. He complained that in some departments the majority of the men were working at one-third to one-half of their capacity. This recent deterioration had been attributed to (a) the rigidity of the existing wage contract, (b) the growing strength of the labour movement and the weakening control of the employers over labour, (c) the increasing propensity for leisure resulting from higher wages, (d) dissatisfaction of labour with the traditional methods of management, (e) growing opinion in labour circles in favour of 'sharing work' rather than reducing employment by intensive effort, and (f) resistance of labour to high pressure effort and rigid discipline.

In order to improve efficiency, it will be necessary to adopt a comprehensive programme of labour uplift. Greater diffusion of technical and general education, raising wages to a reasonable level, reduction of working hours, improved housing and other improvements in working conditions are bound to affect favourably the efficiency of the workers. But, above all, a radical change in our ideal is necessary. So long as a worker suffers from a sense of insecurity and fear of unemployment, and so long as he feels that he is working for others, his efficiency cannot rise to the highest pitch possible, he will try to do the least and try to get the most out of his work. He must, on the other hand, be made to feel that his work fulfils a social purpose, he must be guaranteed complete security from want and fear. Thus alone can the worker develop the right morale.

Factory Legislation

In the beginning of the modern industrial system, the employers were free for a generation to use their labour in any manner they liked, unhampered by any legal restrictions. The result was that the working hours were inordinately long. Labour, especially of women and children, was exploited. The conditions in factories were inhuman and intolerable. For injuries received in the factory, which the unfenced machinery often inflicted, the worker did not receive any compensation. Such a state could not last long and a series of Factory Acts came to be passed.

Factories Act (1881). The heart-rending conditions of the workers awakened the sympathies of some public-spirited men. The Lancashire manufacturers also pressed for factory legislation in India, because they thought that the absence of it placed the Indian manufacturers at an advantage. A Factory Commission was appointed in 1875 which led to the passing of the first Factories Act in 1881. Under this Act, the children got a limited protection. But the adult labour continued to suffer. No child

was to be employed below the age of seven and the number of hours for them were fixed at nine. In the absence of proper factory inspection, the Act remained almost a dead letter.

Factories Act (1891). The Act of 1881 naturally satisfied neither the workers nor their sympathizers. The adult workers had to work from sunrise to sunset even on Sundays, and the holidays were devoted to the cleaning of machinery. They did not get any time even for meals. Another Factory Commission was appointed in 1890 and, on their recommendation, the second **Factories Act** was passed in 1891. According to this Act, the minimum age for employment of children was raised to nine, and the hours of work for those between the ages of nine and fourteen were reduced to seven. No woman was to work between 8 p.m. and 5 a.m. and the maximum number of hours for them were fixed at 11 with an interval of $1\frac{1}{2}$ hours. Other provisions were half an hour's compulsory rest daily, and weekly holiday. The Act applied to factories employing 50 persons, as against 100 persons in the first Act, and the local Governments were empowered to apply it by notification even to those employing 20.

Factories Act (1911). For the next 20 years, no step forward was taken in the matter of factory legislation. In 1906, the Freer Smith Committee and in 1907 a Factory Commission inquired into the working conditions, and they referred to the evasion of the previous factory laws. This led to the passing of the **Factories Act** of 1911. Its principal provisions were: 12 hours as the maximum limit for men and 6 hours for children, regulations to ensure safety and health and making inspection more effective by providing penalties for breaches.

Factories Act (1922). The World War I had awakened among the workers a new consciousness of their importance and solidarity. There was insistent demand for reduction of hours. Thus the Factories Act was amended in 1922. This Act applied to factories employing 20 persons, prohibited the employment of children under 12 and in two factories on the same day, fixed 6-hour day for those between 12 and 15 years of age, and a half-hour interval after 4 hours' work. It limited the hours of adult workers to 60 per week and 11 per day. Women were not to work between 7 p.m. and 5-30 a.m. It contained provisions relating to compulsory rest intervals, a weekly holiday, measures for health and safety and for controlling excessive artificial humidification in the interest of workers' health.

Minor amendments were made by the Acts of 1923, 1926 and 1931.

Factories Act (1934). The working of the Factory Acts revealed their shortcomings and the labour leaders and social reformers agitated for bringing the factory legislation in India in line with that in advanced countries. The Royal Commission on Labour was appointed in 1929. It conducted a comprehensive inquiry into the various labour problems of India. A crop of legislative measures resulted from their recommendations.

The factory legislation was overhauled by the **Indian Factories Act** of 1934. According to this Act, no child between 12 and 15 years was to work for more than 5 hours a day, and non-adult workers between the ages of 12 and 17 had to produce a certificate of fitness. In the case of adult workers the maximum number of hours was limited to 9 per day or 54 in the week. There was a provision for a weekly holiday and a rest interval after 6 hours' continuous work. The seasonal factories were permitted to work 11 hours a day or 60 hours per week. The factories can be called upon to adopt cooling measures for the comfort of the workers. They have to provide adequate water supply, a shelter for rest, suitable rooms for women and children and adequate first aid equipment. The Act also limits overtime work and provides for extra pay for the overtime put in. There are provisions for the security of the factory structure. Limits were imposed on the power of Local Governments in granting exemptions.

An amended Act passed in March 1946 reduced the weekly hours of work to 54 for seasonal and 48 for perennial factories.

Factories Act (1948). The Factories Act of 1934 was amended in a comprehensive manner by the passing of the **Factories Act** of 1948. The Act of 1934 left many vital matters to the rule-making powers of the State Governments. All the minimum requirements, particularly relating to health and safety, have now been embodied in the Act itself. There is a provision of a minimum standard of 500 cubic teet of space per worker in the case of new factories, proper arrangements for the supply of wholesome drinking water and the provision of lunch rooms for the physical comfort of the workers. A canteen is compulsory for a factory employing 250 workers or more.

There is a provision for compulsory licensing and registration of factories. Previous permission has to be obtained for the construction and extension of any factory and specifications have to be approved.

The daily and quarterly limits of overtime have been fixed and the extent of the annual leave with pay has been raised from 10 days per year to one day for every 20 days of work in the case of an adult and to one day for every 15 days of work in the case of a child. The distinction between seasonal and perennial factories has been removed. The maximum weekly hours of work have been fixed at 48 and 9 hours a day. The spread-over has been fixed at 10½ hours in a day.

No adult worker is allowed to work more than five hours unless he has had an interval for rest of at least half an hour. For overtime twice the normal rates of wages shall have to be paid. It also provides for employment of welfare officers in factories employing 500 or more workers.

No child can be employed in the factory till he has completed his fourteenth year. Those between 14 and 15 have to be treated

as children. Hours of work for children have been reduced to $4\frac{1}{2}$. Every year the children have to be medically examined. Employment of women and children between 7 p.m. and 6 a.m. is prohibited. Also they cannot be employed on machinery that would expose them to risk of injury.

The Act also imposes penalties on workers for breaches of the Act. They can be imprisoned if they wilfully mishandle machinery and fined if they spit except in the spitoons.

The Act is made applicable to factories employing 10 or more persons in power-driven factories and employing 20 or more in other cases. The State Governments are empowered to apply it to any factory irrespective of the number.

The Factories Act 1948 was amended in 1956. It fixed 240 days' work in a calendar year as the minimum attendance necessary to qualify leave with wages.

A separate set of laws was passed to regulate working conditions in the mines. The first Act was passed in 1901 and later in 1923 and amending act in 1935. The mines legislation was overhauled in 1949. Working hours for the mine workers have been reduced to 48 per week and no worker is allowed to work for more than 9 hours above ground and 8 hours underground. Some amendments were made in 1959.

Social Security

The term 'social security' has become current in context of the ameliorative measures adopted by modern States. It is a much wider term than social insurance. It includes, besides social insurance, what is known as social assistance. Social insurance provides benefits to those who have made contributions to the social insurance fund, whereas social assistance is provided free. The risks of unemployment, sickness and old age are usually covered by social insurance, whereas benefits of hospitals, sanatoria, maternity, child welfare, school health services, etc., are included in social assistance. The social security system of a country is made up of social insurance and social assistance.

Social security schemes of India are still in their infancy. None of the contingencies which a worker has to face in life has yet been fully covered. Workmen's Compensation Act, Employees' State Insurance Act and Employees' Provident Fund Act can, by courtesy only, be called social security measures. These are only modest beginnings in the direction of social security—**a case of little done and vast undone.** Moreover, the measures already adopted have been separately conceived and executed and have not, therefore, been properly integrated with each other. As a result there is even duplication and confusion. Therefore, apart from extending further the scope of social security in the country, what we need is the **integration of the various measures of social security under the auspices of a single organisation.** We can then expect much greater efficiency and economy in its work-

ing. **The Menon Committee** (Chairman Mr. V. K. Menon, the Director, Indian Branch of the International Labour Office) has recently made recommendations for integrating social security schemes in the country. Another improvement in social security recommended by this Committee is that the provident fund should be converted into a **statutory pension scheme.**

Even when these improvements are affected, it will take us very long before we are able to attain the standards of the advanced countries like the U.K. and the U.S.A. where social security from the 'cradle to the grave' has been provided.

We give below a few measures that have been adopted in India in the direction of social security.

Workmen's Compensation Act. Up to 1923, an employer could be used in a Court of Law under the Fatal Accidents Act, 1895, in case of death by accident. But the law was practically a dead letter. The first Compensation Act was passed in 1923. It provided for compensation to be paid to the employee in case the accident occurred during and in course of work.

Amending Acts were passed in 1926, 1929, 1931 and 1933. The amount of compensation in case of a fatal accident depends upon the average monthly wages of the deceased, and, in case of injury, on the monthly wage and the extent of the injury. In the case of an injured workman whose wages are not more than Rs. 10 p.m. the compensation in case of death is Rs. 500, for permanent disablement it is Rs. 700, and for temporary disablement half the monthly wages. When the monthly wages are between Rs. 50 and Rs. 60 the corresponding figures respectively are Rs. 1,800, Rs. 2,520 and Rs. 15 p.m. The amounts of compensation for persons earning over Rs. 300 are Rs. 4,500, Rs. 6,300 and Rs. 30 p.m. respectively. In case of minors, the compensation for death is Rs. 200, for permanent disablement Rs. 1,200, and for temporary disablement half the monthly wages. Persons employed in administrative or clerical capacity and those whose monthly earnings exceed Rs. 400 (except railway servants) are excluded. To safeguard the interests of the dependants, all fatal accidents have to be brought to the notice of the Commissioner and the amount of compensation has to be promptly deposited with him when the employer admits the liability, and in case he does not, the dependants are informed accordingly.

The Workmen's Compensation Act was amended in 1959 by which distinction between an adult and a minor for the purpose of payment of compensation was removed. If the payment of compensation is delayed, 6% interest has to be paid and a further penalty up to 50% if there is no justification for the delay. The list of injuries has been made more comprehensive. The Act **was further amended in 1962 to raise the wage limit for coverage and** compensation from Rs. 400 to Rs. 500 and revise the rates **of compensation.**

Maternity Benefit Legislation. Maternity Benefit Acts have now been passed in almost all States, and they apply not only to factories but also to plantations and mines. These Acts provide for compulsory rest and a cash benefit for a certain period before and after child-birth, subject to the condition that the employee has put in service for a period varying from six months to a year. During the period of this cash benefit, the employee concerned cannot take up service elsewhere. The Maternity Benefit Act, 1961, was enacted to provide uniform standards for maternity protection. It applies in the first instance to all factories, mines and plantations, except those to which the Employees' State Insurance Act applies.

Employees' State Insurance. The Employees' State Insurance Act was passed by the Indian Parliament in 1948 and was amended in 1951. The Act provides for sickness, maternity, disablement, and medical benefits for all workers employed in factories having 20 persons or more and using power. The Government have however been empowered to extend the scheme to other establishments, industrial, commercial, agricultural or otherwise. Employees, whose remuneration exceeds Rs. 500 a month, are not covered by the Act.

Before a worker could qualify himself for sickness benefit, it has been provided that contributions should be paid for a period of six months, and that in return for such contribution the workers would be entitled to benefits in a subsequent period of six months. The minimum number of weekly contributions that must have been paid by the workers has been fixed at 12. The contributions are payable not only in respect of weeks during which the employee rendered service and received wages, but also in respect of weeks during which he was on authorized leave or was unable to work because of a lock-out or legal strike, with the further qualification that in respect of legal strike, contribution would be payable only if wages were paid either in part or in full. The employees' contribution would be recovered only from the wages due for the period to which the contribution related.

The number of contributions with regard to maternity benefits is also 12. Workers earning up to Re. 1 per day are exempt from contributions. Those who earn Re. 1 to Rs. 1-8 per day contribute two annas per week. The higher wage groups contribute 4 annas to Rs. 1-4 per week. The maternity benefit is payable at the rate of 12 annas per day or the sickness benefit rate whichever is higher. It is paid for every day of the week for a period of 12 weeks of which not more than six weeks can precede the confinement.

Persons disabled on account of employment injury are paid benefit in the form of a pension and the dependants of a deceased person are also similarly paid benefits in the form of a pension. The pension to a permanently disabled worker is to be at the rate of 7/12ths of the weekly earnings.

In regard to medical care and attendance to families of insured persons, it has been provided that if a State Government is in a position to provide for medical care and treatment not only for the insured worker but also for his family, and if the Employees' State Insurance Corporation is in a position to bear the extra expenditure, then the benefit should be extended to the family of the insured person also. The maximum period for which sickness benefit is payable has been prescribed as eight weeks in a year and the weekly benefit is nearly 7/12ths of the earnings of the workers. But as soon as circumstances permit, the Corporation is asked to make use of its power to extend the period of benefit.

The State Governments are expected to contribute about one-third of the cost of providing medical care and treatment. It is expected that the standard of medical care and treatment for insured workers would be such as would cost about Rs. 6 per year as against the per capita expenditure today of 6 annas. So far as the Central Government is concerned, it undertook to make a grant equal to two-thirds of the administrative expenses for a period of five years

The scheme is administered by a corporation to be known as the Employees' State Insurance Corporation with the Labour Minister of the Central Government as the Chairman and the Health Minister as the Vice-Chairman. Both the employees and the employers have five members each in the Corporation.

With effect from April 1, 1962, the employers' contribution has been raised from 1.25% to 2.5% of the wages in the areas where the scheme has been implemented. In other areas it remains 1.25%. By the end of November 1963, the Insurance scheme was extended to about 20.12 lakh workers in 121 centres. At the end of 1962-63, the employees' contribution stood at Rs. 6.02 crores and the employers' contribution at Rs. 6.24 crores. A sum of Rs. 5.29 crores was given to insured persons by way of benefits. By the end of the Third Plan, it is hoped to bring under the scheme all factories employing 20 or more workers covering 34 lakh workers.

By the end of March, 1962 the insurance scheme was extended to 18.65 lakh workers. The employees' contribution stood at Rs. 5.43 crores and employers' contribution at Rs. 4.02 crores. A sum of Rs. 4.16 crores was given to the insured persons by way of benefits. On March 31, 1964 it covered 23.35 lakh workers.

Employees' Provident Fund. The Employees' Provident Fund Act was passed in March 1952. It applies to such of the factories and establishments engaged in the notified industries which employ 50 or more persons and have existed for a period of three years. The workers who have continuously worked for one year or have actually worked for not less than 240 days during the year or less and whose monthly wages including dearness allowance and cash value of food concession do not exceed Rs. 1,000

per month are compulsorily required to contribute to the Fund at 6¼% of their basic wages. They may, if they so like, contribute at a higher rate up to 8-1/3%. The employer has also to make a similar contribution. The employers are not permitted to reduce, directly or indirectly, the wages of any employee or to discontinue or reduce any benefit which an employee may already be enjoying, simply because the employers are liable to contribute to the Provident Fund.

The Act has been amended with a view to liberalising the rules regarding payment of an employer's contribution to the Fund to outgoing members. Formerly the employers' contribution could be paid in full only after 20 years' membership and no part thereof with less than 5 years' service. Now these rules have been liberalised.

The Act was amended in 1960 to provide for (i) making it applicable to smaller units employing 20 persons or more, (ii) coverage being continued in establishments where employment does not fall below 15 and remains so for a period of one year. (iii) treating departments and branches of an establishment as one establishment, (iv) including retaining allowances in seasonal establishments for calculating workers' contributions, (v) excluding co-operative societies establishments employing less than 50 persons, and (vi) extending exemption from liabilities under the Act for five years to small establishments employing between 20 and 50 persons.

The Employees' Provident Fund Act was amended in 1962 to increase the rate of contribution from 6¼% to 8% in respect of industries. The Government may notify from time to time. Immediately it was made applicable to four industries: cigarette, paper, iron and steel and electrical, mechanical and general engineering. For the time being the amended scheme will apply to establishments employing 50 persons or more.

At the end of October 1963, it was operative in 24,345 establishments, having about 38 lakhs of subscribers. The amount of provident fund contributions aggregated to Rs. 437.79 crores. The Act which originally covered six industries covered nearly 84 industries at the end of January, 1964.

A Death Relief Fund ensuring a minimum assistance of Rs. 500 to nominees/heirs of deceased members has been set up.

Social Security for Old and Disabled. A major scheme of social assistance has been prepared by the Union Ministry of Labour and Employment. Under this scheme old persons unable to work, the physically handicapped, widows and destitute children will get financial assistance. A relief and assistance fund has been set up with an initial sum of Rs. 2 crores. In view of limited funds, a beginning will be made on a pilot basis. A network of social assistance bureaux will be spread all over the country to scrutinise cases and determine the amount of financial assistance.

Still another measure of social security is in the offing. The Union Government is considering a proposal to introduce a scheme of family pension for workers who are members of the Employees' Provident Fund and Coal Mines Provident Fund. Announcing this at the meeting of the Standing Labour Committee on December 27, 1963, the then Home and Labour Minister, G. L. Nanda said the scheme would be on the analogy of the recently revised family pension scheme for the Central Government employees. It was proposed to create a fund out of the difference between the old rate of contribution at 6¼% and the enhanced rate of 8%, that is, 3½% of the wages including the employers' contribution of 1¾%.

Out of this fund, a minimum family pension of Rs. 25 per month will be paid to the widow or minor children of the member of the fund who dies prematurely. The maximum will be Rs. 150 p.m. adjusted for different slabs of pay.

The Third Plan made a provision of Rs. 2 crores for setting up a Relief and Assistance Fund for Handicapped Groups. The States were asked to set up pilot projects to provide assistance through local bodies to the old and handicapped and to destitute women and children on a limited scale.

It was reported in February 1965[1] that the Union Government was considering a scheme of unemployment insurance covering about 15 lakh employees who are now members of the Employees' Provident Fund and the Coal Mines Provident Fund. The scheme will be applied to those members of the funds whose pay does not exceed Rs. 500 a month and who are not covered by the provisions regarding lay-off and retrenchment compensation under the Industrial Disputes Act, 1947. The members of the insurance fund will contribute ¼ per cent of their pay every month to the fund up to two years before the date of attaining the age of retirement. Their employers will contribute an equal amount. The members will be paid an unemployment benefit equal to half of the pay drawn immediately before retrenchment each month for a period of up to six months in a year or until re-employed, whichever is earlier. The beneficiaries will have to get themselves registered at the employment exchanges for employment and in case any suitable employment is offered, irrespective of whether it is accepted or not, the unemployment benefit will cease. The members who leave service of their own accord or on attaining the age of retirement and the members who are retrenched but do not wish to take up employment again will not be eligible for the unemployment benefit. The provident fund accumulations of the beneficiaries will not be paid for the time they get unemployment insurance benefit and in the event of their reemployment, their membership of the provident fund will be continued without their having to qualify for membership again.

1. *Hindustan Times*, Feb. 8, 1965.

Legal Minimum Wages

It is sometimes argued that increases in wages will be squandered away in drink and other ill-advised expenditure; or it might induce the worker to take holiday and thus add to the already high degree of absenteeism; or it might be neutralised by increase in population. Further, it is said, that a higher scale will be beyond the capacity of the industry to bear, so that the country's industries will suffer in foreign competition. But these arguments cannot stand even a cursory scrutiny.

No doubt a sudden and large increase in earnings may result in some foolish expenditure. But, if the higher scale is maintained, this folly will be only a passing phase; if the increase is gradual, there will be no danger of foolish expenditure at all being indulged in. It will lead to improvement in standard of living, and the desire to maintain that standard will keep the population down. It is too late in the day to appeal to exploded theories of population or of wages. To say that increase in wages will lead to absenteeism is to misunderstand the psychology of labour, for it means the satiety point with respect to earnings has already been reached which is simply ludicrous. As for the industries' capacity to bear, it may be said that if the industry can only survive when labour is exploited, the sooner it goes down the better.

It is recognized in all advanced countries that it is desirable to maintain certain minimum standard of life. Thus a minimum wage-fixing machinery has been set up to provide for a minimum wage, particularly in "sweated" trades, where the workers are hopelessly unorganised and are, therefore, in a helpless condition. The International Labour Conference held in 1928 adopted a convention in this connection. The Royal Commission on Labour in India also suggested an investigation into the feasibility of setting up a minimum wage-fixing machinery.

Minimum Wages Act, 1948. This overdue reform has by now been effected. The Minimum Wages Act was passed in 1948, according to which minimum wages are fixed in certain selected industries and trades. These trades are those in which condition of sweated labour exists and labour is being exploited. These include plantations, rice and flour mills or oil mills, tanneries, motor transport, and road construction, building operations, woollen carpet-making or shawl weaving establishments, tobacco manufactories, stone breaking, lac manufactories, mica works, agriculture, etc. It has also been extended to cement potteries and glass industry in Madhya Pradesh, textile industry in Ajmer, salt pan industry in Bombay, and automobile engineering, metal working establishments, foundries and printing presses in Delhi.

The Act provides for the fixation of (a) a minimum time-rate, (b) a minimum piece-rate, (c) a guaranteed time-rate, and (d) an overtime rate appropriate to different occupations, localities or classes of work. The minimum rate of wages may con-

sist of (a) basic rate of wages and a cost of living allowance, or (b) a basic rate of wages with or without the cost of living allowance and the cash value of the concession in respect of supplies of essential commodities at concession rates or (c) an all-inclusive rate.

The object of the Act seems to be to ensure to the poorly paid workers a minimum living wage in employment where workers' organisations have not fully developed and where consequently their bargaining power is weak.

The Act is intended to protect men, women, children and adolescent workers and apprentices working both in the home and in factories. Even clerical workers have been included due to absence of organisation among them.

The scope of the Act seems, however, to be too narrow. It excludes many regulated and unregulated industries, where wages are extremely low and where sweating is common, e.g., coir and coir-mat manufacture, furniture making potteries, bangle manufacture, etc. Governments are, however, empowered to add to the list of industries mentioned in the Act after giving at least three months' notice.

Another serious limitation of the Act is that minimum wage rates may not be fixed by the State Government unless at least 1,000 employees are engaged in an industry. There are several industries in various States where the number is less than 1,000. A large number of small-scale and unregulated industries, where the need for fixing minimum wage is the most urgent, may be thus excluded. But the Government at its discretion may fix minimum wages even where the number of employees is less than 1,000.

The machinery provided in the Act for fixing minimum wages is not quite satisfactory. What is needed is a permanent board or a committee in each industry for fixing and revising the wage rates. The Government of India proposes to amend the Act with a view to creating a standing machinery for wage fixation. On the committees provided in the Act, the Government is empowered to nominate equal number to represent employers and employees. But in order to ensure that they are true representatives, the parties concerned should be given the right to recommend names.

The Act does not define the minimum wage. The Act for the former Cochin State defined it as a wage which is not less than sufficient to maintain a well-educated employee in average health, strength and competence and his wife and family of three children in a fair and average standard of comfort, having regard to the conditions of living prevailing among employees in the calling....The Act simply lays down that the minimum wage fixed by the State may consist of basic rate plus special allowance to cover cost of living plus cash value of the concessions, if any.

The Minimum Wages Act empowers the appropriate Government to fix minimum rates of wages payable to employees in industries specified in the Schedule. Such rates have been notified and enforced in most of the scheduled industries. Under an amendment of 1957, all categories of workers including those employed in agriculture were required to be brought within the purview of the Act by the end of 1959. The time limit for initial fixation of minimum wages was done away with in subsequent Amendment Act of 1961.

Industrial Disputes

For industrial progress and prosperity, maintenance of peaceful relations between labour and capital is of the first importance. Industrial conflict means a loss, both to the employers and the employees even when the latter scores a victory. It is also harmful to the community in general. Therefore, every effort is made in advanced countries to maintain industrial peace. "The employer-worker relationship", according to the Planning Commission, "has to be conceived of as a partnership in a constructive endeavour to promote the satisfaction of the economic needs of the community in the best possible manner."

For a long time in India there was no industrial unrest. Although modern industry began to grow in India in about the middle of the last century, yet for nearly half a century no dispute of importance took place. The First World War had made the workers conscious of their rights, and they were prepared to fight for them, if necessary. During the second war, **Defence of India Rules** were enforced in order to check strikes and disputes. According to them the Government armed itself with power to prohibit strikes and lock-outs and to refer to itself any disputes for conciliation or adjudication and to enforce the awards.

Industrial unrest became very serious during the years immediately after World War II and to a lesser extent in recent years. During the last few years there has been appreciable improvement in industrial relations, the number of industrial disputes going down from 1,630 in 1957 to 1.491 in 1962.

The following table gives an idea of the various aspects of the industrial disputes during the years 1947-62.

Year	*No. of disputes*	*No. of workers involved*	*No. of man-days lost*
1947	1,811	18,40,784	1,65,62,666
1957	1,630	8,89,000	64,29,000
1960	1,556	9,83,000	65,75,000
1961	1,357	5,12,000	49,19,000
1962	1,491	7,05,000	61,21,000

Causes

Among the several causes responsible for industrial disputes may be mentioned the following:—

(i) **Demand for wage increase.** This is a major cause. The demand has been intensified in recent years on account of persistent rise in prices. If the prices rise and the wages do not, real wages fall and the workers feel aggrieved. Employers resist rise in wages and dispute is inevitable.

(ii) **Demand for bonus.** This is another cause of industrial disputes. Labour naturally works to have a share in the profits to which they feel they have contributed. There is sometimes a dispute regarding the quantum of bonus.

(iii) **Victimisation.** The employers sometime adopt a vindictive attitude and punish, demote or dismiss some leaders of the workers. This is resented and leads to a strike.

(iv) Demand for reduction of the working day is another possible cause of dispute. The workers' demand for shortening working hours is resisted by the employers.

(v) Question of leaves and holidays also sometimes create trouble and leads to a strike.

Apart from the main causes mentioned above, there are all types of miscellaneous causes which may be difficult to classify. For instance, a strike may occur when the management is not recognising a union or dilly-dallying about it. The workers may oppose rationalisation because of fear of retrenchment. Then there are sympathetic strikes, that is, the workers go on a strike not because they have any grievance but simply because of grievances of the workers elsewhere. Strikes of political nature are also quite frequent in our country. In point of relative importance, wages have been the most common cause followed by questions of personnel, bonus, leave and hours of work and other miscellaneous causes.

Settlement of Disputes. A series of legislative measures have been passed during the last 30 years for the prevention and settlement of disputes. The first Act—**Trade Disputes Act**—was passed in 1929. Any dispute or apprehended dispute could, under this Act, be referred to a Court of Inquiry or a Board of Conciliation by the Government. The Act provided for the appointment of Conciliation Officers to promote the settlement of a dispute. Strikes and lock-outs, which were calculated to inflict severe and general hardship on the community and were declared for a purpose other than, or in addition to, the furtherance of a trade dispute in the industry, were made illegal.

We shall now take up recent legislation regarding industrial relations. In 1947, **the Industrial Disputes Act** was enacted. The **principle of compulsory arbitration** introduced during the war has been continued by it. Under this Act, machinery, both internal and external, has been set up for the prevention and settle-

ment of disputes. The machinery consists of **Works Committees, Conciliation Officers, Board of Conciliation, Courts of Enquiry and Industrial Courts** and **Tribunals.** Thus two new institutions, viz., Works Committees (joint committees of employers and workers, both equally represented, to promote good relations between them) and Industrial Tribunals (consisting of one or more members possessing qualifications required for appointment as Judge of a High Court) have been created. According to this Act, power is given to the Government to require Works Committees to be constituted in every industrial establishment employing 100 workers or more to remove causes of friction between employers and workers in the day-to-day working. If any industrial dispute exists or is apprehended, the Government may refer the dispute to a Conciliation Board for settlement or to a Court of Enquiry for investigation or to a Tribunal for adjudication.

The Act empowers the Government to declare certain services as **public utility services** and any strike or lock-out in the public utility services is illegal, if it is commenced or declared without giving to employers or employees a notice of strike or lock-out within six weeks before striking or declaring a lock-out. Any strike or lock-out is illegal if it is commenced or declared during the pendency of conciliation or tribunal proceedings.

The **Industrial Disputes Act was amended in 1956.** It aimed at: (a) simplifying the procedure for adjudication and (b) abolishing the Labour Appellate Tribunal. According to it, it is open to the two parties to sign an arbitration agreement and refer the dispute to an arbitrator. **The Appellate Tribunal has been abolished,** since it encouraged litigation. Its abolition is a concession to labour demand. Instead, the Act provides for the setting up of **three** types of original tribunals, **Labour Courts, Industrial tribunals** and **National tribunals.** The labour court will adjudicate on the propriety or otherwise of an employer's order; the industrial tribunal on matters like wages, hours of work, etc., and the national tribunal on questions of national importance or those affecting more than one State. The amended Act lays down judicial qualifications for the personnel of these tribunals. It also provides that an employer shall not introduce any change in respect of certain specified matters without giving the workmen concerned 21 days' notice. It is also provided that an employer may, during the pendency of a dispute, discharge or punish an employee for any misconduct not connected with the dispute. It is hoped that the power shall be wisely used.

The Indian Labour Conference held in July 1957 agreed on **Code of Discipline,** i.e., certain principles to be followed by both the employers and the employees in the matter of disputes. These include: (a) no strike or lock-out without notice; (b) no unilateral action to be taken in connection with any industrial matter; (c) no recourse to go-slow tactics; (d) existing machinery for settlement of disputes should be utilised; (e) awards and agreements should be speedily implemented; and (f) acts of violence,

intimidation and coercion should not be resorted to. Works Committees to deal with matters of discipline should be set up where they did not exist. A tripartite committee is to examine breaches of code and non-implementation of awards and is to publish cases of flagrant violation.

Much, however, depends on the spirit with which these decisions are implemented. It is very necessary to arrest the upward trend in prices and stabilise them at a reasonable level, otherwise demand for increase in wages will become irresistible, and unless conceded, industrial peace will be threatened. Industrial peace can be ensured only if the employers and the employees regard themselves partners in industry. At present, unfortunately, both sides are inclined to insist upon rights rather than on obligations. The agreement concluded between the Tata Iron and Steel Company and the Tata Workers' Union furnishes an example of how industrial relations should be conducted. This agreement envisages progressive association of the employees with the management of the Company at various levels and by gradual stages. There is a clear recognition on both sides that the interests of the industry can best be promoted through whole-hearted co-operation between them on the basis of well-defined rights and obligations. It also provides, for the first time, for workers' co-operation in increasing productivity, modernisation and expansion.

Some beginnings have recently been made in yet another method of promoting industrial peace in the country. This is by arranging for **workers' participation in management**. A study group was sent to certain Western countries to make a first-hand study of the working of workers' participation in management. The recommendations of this group were considered by the Indian Labour Conference in 1957, which decided to experiment with **management councils** on a **voluntary basis**, has drawn up a list of establishments which agree to co-operate and has defined the scope of and functions of the councils. By 1960-61, the scheme was in operation in 23 undertakings, while about 15 more had agreed to give the scheme a fair trial. A major programme for the Third Plan will be the progressive extension of the scheme of Joint Management Councils to new industries and units so that it may become a normal feature of the industrial system.

These Acts lay down the machinery for the prevention and settlement of industrial disputes. Besides, there are trade unions also which by collective bargaining try to iron out labour-management differences. The machinery under the 1947 Act starts with **Works Committee**. If it fails to secure mutual understanding, the **Conciliation Officer** tries to help the parties to reach amicable settlement. If his efforts fail, the Government may refer the matter to a **Board of Conciliation** or to an **Industrial Tribunal**. In the case of the former not being able to bring about a settlement, the Government may refer the case to a **Court of Enquiry** for the collection within six months of the

necessary facts about the dispute and then that case is referred to the **Industrial Tribunal** for adjudication. The award of the Tribunal is binding on the parties. The Government, however, have the power of rejecting or modifying it within 30 days. It may incidentally be noted here that it was in the exercise of this power that the Government of India modified in August 1954 the award of the Bank Tribunal and it was this that led to the resignation of Shri Giri, the then Central Labour Minister. The 1956 amendment of the Act, however, abolished the Tribunal since it encouraged litigation. Instead it has set up three types of original tribunals. This was a considerable improvement.

There is a difference in the case of **public utility services**. While in their case, it is compulsory for the Government to refer for conciliation any disputes in them, in other cases it is left to the discretion of the Government to send the dispute for conciliation or to the Industrial Tribunal straightaway.

Thus, the existing machinery is both **internal** and **external** as well as provides for, besides **voluntary conciliation and mediation, compulsory conciliation and adjudication.**

The present system, i.e., under the Act, has, however, been the subject of much criticism. Firstly, legislation is not uniform all over the country. Besides the above-mentioned Act, the various State Governments have enacted measures of their own regarding industrial relations. There is thus **confusing diversity from State to State**. It is very desirable, in the first instance, to have a **uniform law for the whole country**.

The second and a far more serious objection is that the **emphasis is on compulsory adjudication.** During the war and in the difficult post-war years the rigid principles like compulsory adjudication embodied in the Act of 1947 may perhaps have been inevitable, but their further retention would be very harmful to industrial peace in the country. This policy of compulsory adjudication has discouraged voluntary agreement between labour and management and healthy trade unionism. It has instead given rise to too much litigation in which the parties go to courts and tribunals as litigants and opponents, thus making the whole atmosphere surcharged with mutual hostility.

Then, until and unless a competent personnel with adequate industrial background becomes available, the **adjudication award may be unrealistic** and may thus either impose unduly high burdens on industry or not do proper justice to labour. The award of the Bank Tribunal in 1954 may be cited as an example. The Government thought that the implementation of the award in the case of bank branches in towns of 30,000 or less population would make such branches uneconomic and would thus lead to their closure and retard banking development. It, therefore, modified the award to give exemption to such offices.

The most important suggestion, therefore, is to **shift the whole emphasis on collective bargaining**, starting from the lowest

level; then, voluntary **conciliation and arbitration, with adjudication only in the last resort**. This is, in fact, the essence of the **'Nanda Approach'** and **'Giri Approach'**.

An expert body of personnel with considerable industrial grounding should be built up for serving on conciliation and adjudication boards. The Third Plan proposes to institute a training programme for this purpose. Cost of living, wages, profits, productivity and other allied **statistics** should also be carefully compiled and analysed so as to form the basis of mutual negotiations and outside arbitration.

However, in the early stages too much risk should not be taken by suddenly switching over to voluntary conciliation. One reason for proceeding slowly is that the trade union movement is not yet sufficiently organised in the whole range of industry. Labour might, therefore, suffer if adjudication is completely withdrawn. And to safeguard the interests of society from thoughtless and irresponsible action of labour and/or management, industrial concerns may be divided into two categories in one of which, the public utilities, the Government should retain ultimate powers of intervention to prevent strikes and lock-outs.

The central organisations of employees and employers passed jointly in November 1962 an Industrial Truce Resolution banning interruption or slowing down of production. The resolution laid down steps for promoting industrial peace, production and price stability.

The Industrial Disputes (Amendment) Bill, 1963, introduced minor changes based on agreed conclusions reached at the periodic meetings of tripartite labour bodies.

A Bill to further amend the Industrial Disputes Act was introduced in the Parliament in December, 1964. The Bill seeks to give effect to proposals approved by the tripartite standing labour committee. One of the provisions of the Bill is that lay-off compensation would become payable for all the days of lay-off beyond the first 45 days, whether the period is continuous for a week or not. Another provision seeks to bring the Air India and the Indian Airlines Corporation within the jurisdiction of the central sphere in order to simplify the existing procedure for handling disputes. A third provision will make it possible for cases of individual dismissals and discharges to be taken up for conciliation or arbitration or referred to adjudication under the Industrial Disputes Act. At present individual cases have to be sponsored by a union or a number of workmen to get these facilities.

Trade Union Movement

Up to the end of the war of 1914-18, Indian labour was practically unorganized. The first important step towards organizing labour was taken by Mr. Lokhande in connection with the agitation for the amendment of the first Factory Act. He laid the

foundation, in 1890, of the first organization of labour, viz., the Bombay Mill Hands Association. The Amalgamated Society of Railway Servants of India and Burma was formed in 1897 with functions more fraternal than militant. Of the organizations formed in the beginning of the present century mention may be made of the Printers' Unions, Calcutta, 1905, and Bombay Postal Union, 1907.

The First World War was responsible for a mass awakening especially in view of increased cost of living. Discrimination against Indian labour in the colonies, the growth of Indian national movement and the revolution in Russia were also some of the factors that gave a fillip to the Indian labour movement. New ideas came to be preached and new aspirations cherished. The credit for forming the first industrial union goes to Mr. Wadia, who organized in 1918 the textile workers in Choolai in Madras. Within a few years, score of unions came into existence. Mahatma Gandhi in 1920 formed at Ahmedabad a Spinners' Union and Weavers' Union. The first All-India organisation—All-India Trade Union Congress—was held in 1920.

These early unions were, however, more strike committees and disappeared as soon as their demands were fufilled. They seldom gave notice of a strike, could sometimes hardly formulate any grievances, and would often shift their grounds or put forward extravagant claims. Further, the unions were isolated from one another without any solidarity among them.

Trade Unions Act (1926). To put the trade unions on a legal basis and to grant protection to the workers in the pursuit of bonafide trade union activities, the Trade Unions Act of 1926 was passed. This Act lays down certain conditions regarding registration of a union. For example, 50% of the members of the executive committee must be employed in the unit or units covered by the union. Subject to this any seven or more members can apply for registration. No person under 15 can be a member of a union. The registered unions are not allowed to use their funds for political purposes, although they are permitted to have separate political funds to which the subscription is purely voluntary. The purpose for which the funds can be spent have been definitely laid down. They are also required to submit annually an audited statement of accounts, a copy of the rules and a list of office-bearers and the executive committee. They have also to provide for the inspection of books. The Act, however, confers on registered unions certain rights and privileges. They enjoy immunity, both civil and criminal, from prosecution for their activities connected with the furtherance of a trade dispute.

In the beginning the unions were slow to register themselves. But the attitude of the employers using non-registration as an excuse for not recognizing a union also accelerated the movement for registration.

The Trade Unions Act was amended in 1948. The amendment provides for the compulsory recognition of the trade unions by

employers under the orders of a Labour Court. To obtain recognition it is essential that (i) the union is registered under the Act; (ii) all the members of the union are workmen; (iii) it is a representative body of all the workers engaged in the industry and its rules do not debar any workman from membership; (iv) a procedure for calling a strike is laid down in the rules; and (v) there is a provision for its executive to meet at least once in six months.

In order to check Communist influences infiltrating into the labour ranks, the All-India National Trade Union Congress was formed under the influence of top Congress leaders. The new body aims at securing redress of grievances without stoppage of work, by means of conciliation, and, failing that, by arbitration or adjudication. It wants to adopt means which are peaceful and consistent with truth. In 1960, the I.N.T.U.C. with a membership of 10,53,386 was the largest trade union organisation in the country, while All-India Trade Union Congress came second with a membership of 5,08,662.

The following table gives an idea of the growth of the Trade Unions in India:—

Registered Trade Unions and their Membership

Year	*No. of Registered Trade Unions*	*No. of Unions furnishing information*	*Membership of the Unions*
1	2	3	4
1938-39	562	394	399,159
1947-48	2,666	1,620	1,662,929
1952-53	4,909	2,687	2,064,896
1953-54	6,029	3,295	2,101,922
1954-55	6,504	3,008	1,994,842
1955-56	7,846	3,911	2,225,310
1956-57	8,353	4,399	2,276,762
1957-58	9,822	5,384	2,672,883
1958-59	8,421	5,876	3,348,337
1959-60	10,475	6,381	3,923,345

The trade union movement in India has made remarkable progress in about a generation. In the undivided India in 1938-39, there were only 562 registered unions whereas in 1947-48 the number of unions rose to 2,666 In 1938-39, 394 unions submitting returns had a membership of 399,159 whereas 1,628 unions

in 1947-48 submitting returns had a membership of 1,662,929. In 1959-60 the number of registered trade unions rose to 10,475 and of those submitting returns to 6,381 with a membership of 39.23 lakhs. In few other countries has such a rapid progress been shown. The movement is fairly widespread and the trade union idea has taken deep roots. The unions are now better organized, and are permanent in character. They have acquired a following and a prestige and wield enormous influence. This rapid expansion is due mainly to the following three factors: (i) greater consciousness among workers to organise themselves with a view to improving their standard of living; (ii) efforts made by the central labour organisations to expand the field of organised labour; and (iii) legislative measures passed by the Central and State Governments to facilitate collective bargaining.

The trade union movement in India is not, however, as sound and strong as it ought to be. The trade unions in India can claim as members only a small fraction of the total strength of the industrial force. Most of the leaders are outsiders—lawyers and other professional men or politicians. The funds at their disposal are meagre and they cannot afford to support the workers when on strike. Few unions have unemployment, sickness and old-age benefits. Not many unions do any welfare work. Their fraternal or "mutual help" side is practically undeveloped. They have confined their activities almost exclusively to the militant functions, i.e., getting their grievances redressed and formulating demands for higher standards and better conditions.

Handicaps and Shortcomings

It will, however, be wrong to say that our Trade Union movement has reached the standards that similar movements have attained in the West. The reasons are not far to seek. The important ones are as follows:—

(1) A considerable number of industrial workers in India have yet to be organised into unions. As against this, in England, for example, no less than 90% of the industrial labourers are members of the Trade Union movement. Take also the example of Japan, which with one-fifth of our population had (in 1952) 27,851 trade unions comprising a membership of over 57 lakhs.

(2) Most of the leadership is provided by outsiders. This is a serious weakness of the movement in several ways. The outsiders possess neither an intimate knowledge of labour problems nor the necessary degree of sympathy. In most cases, they have their own axe to grind. It is the leadership from within their own ranks that will impart real strength to the movement. That is the secret of the success of the movement in England.

(3) **Illiteracy and ignorance of workers** is another serious handicap.

(4) **The migratory character of Indian industrial labour also stands in the way of sustained interest on the part of labour in trade unions.**

(5) **Differences in language, caste, creed, customs** constitute still other serious difficulties in the organisation and strengthening of trade unions.

(6) **With low wages, poor physique** and **long hours of work,** the workers have neither the means to pay subscriptions nor the inclination and leisure to take interest in the activities of their unions.

(7) Another very serious obstacle to the movement has been the **opposition of jobbers and employers**. The latter do not realise the role that unions can play in preventing unauthorized or lightning strikes.

(8) **Extremist attitude of trade union leaders.** Trade union leaders themselves also quite often provoke the opposition of their employers by raising slogans to end the capitalistic system. They do not follow a conciliatory policy within the framework of the existing system.

(9) A very serious defect is the presence of **internal differences** in the movement. People with different political ends enter unions and try to run them for their own purposes.

(10) **There is also a lack of the democratic spirit** in the working of the unions.

(11) **Absence of 'beneficent' activities.** Very few trade unions in India pay attention to their 'beneficent' functions. So far they have been mainly concerned with their **'militant'** functions, mostly the organisation of strikes. Functions like the provision of medical and sickness relief, recreation, help to widows, etc., have been neglected almost altogether. On account of this the activities of the trade unions have not much impressed the workers.

Summing up in the words of the Second Five-Year Plan, **"Multiplicity of trade unions, political rivalries, lack of resources and disunity in the ranks of workers are some of the major weaknesses in a number of existing unions."**

Suggestions for Strengthening the Movement

In view of the very important role that trade unions have to play in the industrial life of the country, it is essential that the movement must be organised on sound lines and it should embrace much larger number of workers than it does at present. For this purpose, the difficulties and defects noticed above must be removed.

The following useful suggestions may be made in this connection:

(i) The working classes must be educated. Meetings of union members must be frequently called where lectures and discussions be held.

(ii) Efforts should be made to develop leadership of the movement from within the ranks of the industrial workers themselves.

Educating the workers will help towards this. Trade union workers should be properly trained in trade union duties.

(iii) Democratic spirit must be fostered in running the movement.

(iv) Trade union leadership must also adopt a more sober and constructive attitude rather than the present extremist and destructive one.

(v) The principle of 'one union in one industry' should be adopted and thus the existing multiplicity of trade unions should be done away with. This will improve their financial position and increase their bargaining strength.

(vi) Greater emphasis should be put on beneficent activities than is being done at present. If their welfare and cultural activities, i.e., their constructive side, is developed, the prestige and popularity of the movement will greatly rise.

(vii) The employers have also a contribution to make towards the building up of the movement. They must understand the benefits of collective bargaining in the interest of industrial peace. Once they realize the true role of trade unions, they can be expected to adopt a sympathetic attitude.

(viii) Lastly, it is very important that political parties should keep themselves aloof from trade unions and that trade unions should confine their activities to the betterment of working classes rather than dabbling in politics.

It is gratifying that some efforts on the above lines have already been commenced. **All-India College** for imparting trade union training has recently been started in Calcutta.

Trade Union Bill of 1951. The Bill sought to compel the employers to bargain collectively with certified bargaining agents. It prohibited employers from interfering with the right of the employees to organise and administer unions. The employers could not discriminate against their employees for union activities. It provided for registration and recognition of trade unions. The bill was, however, allowed to lapse on account of bitter opposition both from the employers and employees.

Labour Policy in Five-Year Plans

It is obvious that no planning of economic development can be successful without the cordial co-operation of well-contented and efficient labour. Naturally, therefore, a great deal of attention has been given to labour policy and programmes in our Five-Year Plans.

Labour policy in the First Plan consisted of the following:—

(i) Effective administration of labour laws; (ii) joint consultation for settlement of disputes; (iii) improvement in real wages; (iv) implementation of social security schemes like the Employees' State Insurance and Employees' Provident Fund; (v)

improvement of working conditions; (vi) establishment of Central Labour Institutes for the systematic study of labour problems; and (vii) establishment of labour welfare centres. Most of this programme has been carried out with the co-operation of all concerned. The result is that industrial relations have shown marked improvement.

During the Second Plan period, the same programme was carried forward with some modification and adaptations especially with reference to the avowed object of achieving a socialistic pattern of society. A suitable labour policy was evolved by the Panel on Labour which was constituted by the Planning Commission. Two developments during the Second Plan are significant and deserve mention: First, a form of workers' participation has been evolved to give them a sense of belonging and to stimulate their interest in higher productivity. Joint Management Councils have been set up in 23 units so far (1960-61). Secondly, the programme of workers' education has made a good start. The scheme comprises the training of teacher-administrators and worker-teachers.

Labour Programme in the Third Plan. The Third Five-Year Plan proposes to continue those labour policies and ideas which have been tried and found useful during the Second Plan period. Thus, it emphasises the development of co-operative arrangements evolved by the parties themselves to settle industrial disputes amicably because the object is to secure not peace alone but higher levels of industrial efficiency and a rising standard of living for the working classes. In this connection, the Third Plan appreciates and proposes to implement further the adoption of **Code of Discipline** to improve the relationship between the workers and the management and a **Code of Inter-Union Conduct** to be followed by the trade unions so as to lessen inter-union rivalry.

It also recommends that ways be found for increasing the application of the principle of **voluntary arbitration** between workers and employers.

The adoption of an appropriate **"grievance procedure"** for all industrial establishments will receive special attention during the Third Plan.

In order to associate workers more and more with the industrial apparatus, the **scheme of joint management** councils would be progressively extended. Steps would also be taken to strengthen the existing works committees, which are expected to be made more effective.

In regard to **wage policy**, the Plan suggests a re-examination of the nutritional requirements of an average working class family on the basis of scientific data so as to secure as a basis for fixing up a need-based minimum wage. The fixation of wages by setting up **wage boards** is proposed to be extended to other industries (at present there exist such boards for cotton textiles, sugar and cement plantations). The Planning Commission also feel con-

cerned about the narrowing down of the **wage differentials** between the skilled and the unskilled workers and proposes to organise studies on the aspects of: (a) wage-differentials; (b) the manners in which wages should be linked to productivity; (c) the techniques of measuring productivity; and (d) the norms on the basis of which the gains in productivity should be shared.

As regards **social security**, the Planning Commission have admitted that they could not yet enunciate a policy for greater integration of the existing security schemes as suggested by a committee of experts; however, they intend to increase the coverage of the schemes.

The Planning Commission have also noted the unsatisfactory progress achieved in the field of **housing of working class families.** Accordingly, they intend to re-examine the whole approach in this respect to achieve better results in the future. The Planning Commission is now considering whether the new medium and large-sized industrial establishments should not be required on a **compulsory** basis to take on the responsibility of constructing houses for a specified minimum proportion of their workers.

The large-scale expansion of the programme of **workers' education** which the Government has undertaken through a semi-autonomous board and is being run with the full co-operation of the employers' and workers' organisations is visualised during the Third Plan. It is expected that workers' education will strengthen industrial democracy and promote a progressive economic system.

The other important recommendations of the Third Plan are as follows:—

(i) It recommends to work out a **Code of Efficiency and Welfare** which will help in cultivating the right attitudes on the part of the managements and workers and will define concretely the responsibilities of both for achieving these ends (of efficiency and welfare).

(ii) It proposes to constitute a commission on the pattern of wage boards to study **problems connected with bonus claims** and evolve guiding principles and norms.

(iii) It intends to prohibit the employment of **contract labour** in certain select occupations and to take steps to safeguard fully the interest of contract workers.

(iv) It emphasises the importance of various forms of co-operation for the recreation and welfare of working classes.

(v) Attention is also proposed to be paid to the improvement of training of workers, especially in the direction of adequate facilities for inter-plant training.

(vi) In order that the **agricultural workers** may have their due share in the benefits of economic progress, their needs and

problems will receive special consideration in the course of the Third Plan.

(vii) The Third Plan proposes the opening of one hundred employment exchanges with the object of providing at least one exchange in each district.

It is clear that the Third Plan attaches a great importance to programmes of labour and labour welfare.

CHAPTER XXII

Transport—Railways

Importance of Transport

"If agriculture and industry are the body and bones of a national organism, communications are its nerves."[1] The industrial development of a country depends on adequate provision of means of transport. Agricultural resources, too, can neither be developed nor properly utilised with inadequate means of transport and communication. Without means of transport agricultural produce could not be marketed.

India is a sub-continent with vast distances. In the past, its natural configuration did not allow it to be unified. Men and materials could not be moved quickly. There were some trunk roads built by the Afghans and Moghuls, but they were too few to meet the needs of the people. Even today, more than half of the perishable produce of India runs to waste on account of delay in reaching the market. Quite a large number of areas are devoid of lines of communication, and in some districts 70 to 80 per cent of the villages are cut off during the monsoon season.

The history of civilization is the history of transport. The road makers carry the torch of light. They lead and civilization follows. Homesteads, hamlets, villages, towns and cities follow in their wake, one after the other. The track changes into a road, unmetalled at first and then metalled. Trade develops unifying the world. In fact the progress of man corresponds with the evolution of the means of transport. Not only are goods carried by their means, but the cultural, social and moral advancement of a country directly depends upon them. They diffuse knowledge, remove prejudice and destroy ignorance.

Till 1850, India had no roads worth the name. It was in the time of Lord Dalhousie that steps were first taken in the pursuit

1. *India 1955-56.*

of an active public works policy. The means of communication, though haphazard in construction, helped to break down the isolation of the villager who started growing crops for the world market in place of the village market. But these railways and roads were developed in the interest of trade and administration. Today they are being "increasingly oriented to serve the needs of industrial development."

Thus agriculture, industry, trade or any other economic activity depends, in a very large measure, on the development of the means of transport and communication. Apart from its important social and cultural advantages, an adequate transport system is essential for efficient administration and for national defence.

Means of transport in the India of today are of four main kinds—(a) Railways, (b) Roads, (c) Waterways, and (d) Airways. We shall deal with each of them one by one.

Railways

Railways occupy a unique place in Indian economy. It is the country's biggest nationalised undertaking. They represent a capital investment greater than the capital of all organised industries. The total capital at charge in railways at the end of 1964-65 (Budget) stood at Rs. 2,389.44 crores yielding gross earnings amounting to Rs. 668 crores. All the other organised industries give employment to nearly 31 lakh workers, while railways alone absorb over one million workers with a total wage bill of nearly Rs. 235 crores in a year. In 1962-63 railways carried on an average 48 lakh passengers and 4.9 lakh tons of goods daily. They carried all sorts of goods—foodgrains, cement, cotton textiles, sugar, industrial goods, and what not. These figures are a sufficient proof of the importance of railways in Indian economy.

Railways in India compared with other countries. The total route kilometrage of railways in India is 57,404 (1963). Our route kilometrage is the largest in Asia and the second largest individual railway network in the world. The broad gauge accounts for 46% of the total. Before the outbreak of the war a good deal of the mileage was worked by private companies but most of it has been taken over by the State. The lines belonging to the princely States in the past have also been integrated with Government railways.

Mileage figures do not give a correct idea of the sufficiency of railways in a country. They should be taken in relation to the area and population served. The following tables will give us a comparative idea of the position of Indian railways:

TABLE I

Mileage of Railways per 100 square miles of area

U.S.A. ...	6.6	Canada	1.0
Union of South Africa ...	2.4	Belgium	44.0
Argentina	2.0	U.K.	20.0
Australia and New Zealand ...	0.9	Germany	20.0
Russia in Europe	1.5	India	2.7

TABLE II

Mileage of Railways per 1,00,000 of population

Canada	...	465	U.S.A.	...	...	224
			U.K.	...	...	46
South Africa	...	164	India	...	...	9.6

Table I tells us that the railway mileage of India does not compare unfavourably with that of agricultural countries like Canada, Australia and U.S.S.R. but compared with industrial countries like Belgium and U.K., India is poorly served.

Table II is very revealing. India lags behind even agricultural countries, when railway mileage is studied in relation to population. To compare India with Belgium is meaningless. To have a correct idea she should be compared with the U.S.A. which too has a vast area. She has long distances, tall mountain ranges, burning deserts and huge rivers and yet she owns more than a quarter million of railway miles, where India can boast of only a fraction of this. Roads might fill the gap to some extent, but even in these India is deficient She needs more railways, wisely planned in co-operation with roads and waterways.

Effects of Railways

Railway construction has had effects both good and bad. Among the beneficial effects we might mention that railways have reduced the horrors of famines. The great mortality in human life has disappeared. Famines are no longer famines of food. Railways have linked the cultivators of India with world markets. Her agricultural produce is exported abroad in return for manufactured goods. The standard of living of the people has improved to some extent. They not only spread knowledge but are also responsible for a greater use of improved seeds and manures, and modern implements. Agriculture has been commercialised. While previously agriculture was carried on for subsistence, now crops are produced for the market. Cash crops have come to be extensively grown.

Towards industrial development, too, the railways have made material contribution. They provide easy and cheap means of transport for carrying coal and raw materials to the industrial centres and then distribute the finished goods all over the country. By facilitating mobility of labour, the railways have further helped industry.

Railways have tended to break up the existing social isolation of the country. They have created a sense of national unity. They have practically brought a social revolution. They have taken new light to the village and broadened man's minds. Caste prejudice has largely disappeared and the bonds of joint family system broken. If the various castes do not yet intermingle, they have at least realised that they can live only on each other's sufferance. The Brahmin with the caste-mark painted across his forehead travels to holy Kashi in the Janata Express sitting cheek

by jowl with a low caste sweeper whose shadow falling on him would have created a rumpus 50 years back.

Quicker means of communication have greatly increased the amenities of life in urban areas. Fruits from Kashmir and Kulu, fish from Bombay, mangoes from Saharanpur are selling all over the country. Perishable articles like eggs and milk travel long distances overnight to reach their consumers the next day. The railways have thus greatly expanded both the internal and external trade of the country. A large number of markets have been developed all over. Both imports and exports have multiplied manifold.

The administration of a vast country like India is possible only because of railways. They give internal security and external safety. Economic life cannot be planned on a large scale without an efficient system of railways. Agriculture and industry, trade and business, all depend on quick means of transport. India would again degenerate into a large number of warring States if railways were not there to maintain social and cultural contacts. Thus a great many benefits—political, social and economic—flow from the railways in India. Since India is on the road to industrialisation, quicker and more efficient railways are more urgently needed than ever before. They are the main foundation on which the progress of national economy rests.

Adverse Effects. But there is the other side of the picture also. We cannot ignore the injurious effects of railway development on Indian economy. By flooding the Indian markets with cheap machine-made foreign goods, the railways destroyed the once flourishing Indian industries.

The decay of old Indian industries led to the displacement of many people from those industries. These people fell back on land. This brought about heavy pressure on land and greatly reduced the efficiency of cultivation.

By facilitating export of valuable raw materials, the country's resources were drained out. Thus both exports and imports proved greatly detrimental to the interests of the country.

By breaking the isolation of the village, the railways led to the decay and disintegration of the Panchayats. Consequently litigation increased very much.

With the railways came the foreign capital with all its attendant evils.

The railway lines in many places were so constructed as to obstruct the natural drainage. This resulted in floods, waterlogging and malaria.

But these adverse effects were not inherent in railways. By a little forethought and by the adoption of a suitable policy, these could well have been avoided. The benefits, on the other hand, are clear and natural and far outweigh the disadvantages.

In fact, the railways revolutionised the economic and social life of the country to its great advantage.

Regrouping of Railways

Previously amongst the 37 railway systems, the route mileage varied from 1,231 on the Assam Railway to 4,457 on the East Indian Railway. Then there were the Princes' railway lines; the largest being the Nizam's with 1,460 miles and the smallest the Jaipur railway with 330 miles. Their operation ratios varied widely and some lived on the others. This distribution was a haphazard one and needed revision to pull up standards of efficiency. The taking over of State Railways from 1950 made the need for reorganization more urgent than ever. It was proposed to weld all the systems into one co-ordinated railway system, divided into six (now eight) major zonal administrative units. It was expected that this step would achieve operational efficiency and financial economy as well as bring about order. The present zones are Southern Railway, Western Railway, Central Railway, Northern Railway, North Eastern Railway, Eastern Railway, South Eastern Railway, North East Frontier Railway. It was reported in December 1964 that it had been decided to constitute another railway zone for Andhra and Mysore.

The main principles governing the regrouping are that:—

(a) Every unit should serve a compact region.

(b) It should be large enough to provide a headquarters organisation, capable of adopting improvements in railway technique and equipped with workshop facilities and research institutions.

(c) The regrouping should cause minimum dislocation so as to prevent even temporary diminution of efficiency.

(d) Each zone should have about the same mileage, i.e., 6,000.

The working of the Regrouped Railways, etc., was reviewed in 1954, but the data available yet are not enough to make reliable estimates and the Minister for Railways asserted in the Parliament that "The Reorganised Railways must measure up to the usual standards of performance." Accordingly, an Efficiency Bureau has been set up in the Railway Board "to eliminate outmoded and costly practices and to evolve techniques for efficiency measurements in the field of operation and management."

Railway Finances

Up to the end of the nineteenth century, the railways were a losing concern. For a long time railway finances were mixed up with the general revenues. But the railway finances were separated from the general finances from 1924-25. So long as railways remained a part of the general finances, their fortunes varied with that of the Government. There could be no continuity in railway policy. In good years there was waste, and,

in bad ones, starvation of essential services. Accordingly, a convention was adopted in 1924, by which the railways were to contribute one per cent on the total capital at charge on commercial lines plus one-fifth of the surplus profits in a year to the Central revenues.

The post-war years proved rather difficult so far as railway finances are concerned. This was mainly due to the strain of the war and the partition of the railway system into two. The old convention relating to the separation of Railway from General Finance adopted in 1924 was re-examined and **a new convention was adopted in 1949.** According to this convention, the railways were to pay, during the quinquennium beginning 1950-51, a guaranteed dividend of 4% on the capital-at-charge at the end of each penultimate year. A **revised Financial Convention, 1955,** prescribed the same rate of payment except that on new lines a moratorium is to be granted during construction and for the next five years.

The Railway Convention Committee of Parliament in its report in 1960 said that no change was called for in the next five years in the present mode of contribution by the railways to the general revenues, namely, an annual dividend at a fixed rate. But it recommended that—

(a) the rate of dividend paid by the railways to the general revenues be raised from 4 to 4¼% during five years beginning from 1961;

(b) the annual loss on the working of strategic lines should be borne by the general revenues;

(c) the tax on railway fares be merged with regular fares from April 1961 but in lieu thereof a fixed amount of Rs. 12.5 crores a year be paid by the railways to the Government during Third Five-Year Plan;

(d) the annual appropriation to the Depreciation Reserve Fund should be raised from Rs. 45 crores to annual average of Rs. 70 crores per year in the quinquennium 1961-66.

The Indian Railways have now attained a fair measure of financial stability. The year 1963-64 witnessed a noteworthy improvement in the performance, physical as well as financial, of the railways. The revised estimates for 1963-64 disclosed a net surplus of Rs. 37.75 crores in spite of certain unavoidable additional expenditure including that arising from emergency. Total expenditure in 1963-64 (R.E.) went up to Rs. 473.48 crores mainly due to additional operational and other expenses as well as the effect of the increase in the price of coal and the implementation of certain recommendations of the Second Pay Commission. Gross receipts were placed at Rs. 22.22 crores mainly as a result of increase in goods traffic, slight increase in passenger and parcel traffic and the effect of additional levies. The dividend to General Revenues was stepped up to Rs. 95.03 crores.

In the budget for 1964-65 the total expenditure was placed at Rs. 516.82 crores and ordinary working expenses at Rs. 414.68 crores. The increase arises from the additional obligation devolving upon the railways to keep themselves ready to carry additional defence load, apart from providing for additional expenses associated with the increased traffic. Still it was decided to increase the rate of return payable to the exchequer on the capital-at-charge of the railways from 4.25% to 4.50%. It was also decided to build up internal resources of the railways by making additional contributions to the Depreciation Reserve Fund. The following table gives an outline of the financial results of working of Government Railways since 1955-56.

Railway Finances

(In crores of rupees)

	1955-56 (*Actuals*)	1960-61 (*Actuals*)	1963-64 (*Revised*)	1964-65 (*Budget*)
Gross traffic receipts	316.29	456.80	622.22	668.00
Ordinary working expenses	212.95	313.15	393.34	414.68
Appropriation to depreciation reserve fund	45.00	45.00	80.00	83.00
Total working expenses	258.22	368.93	473.48	516.82
Net Railway revenue	50.34	87.87	132.78	134.10
Dividend to general revenues	36.12	55.86	95.03	103.23
Net surplus	14.22	32.01	37.75	30.83
Operating ratio	81.6%	78.42%	76.1%	77.47%
Capital-at-charge	968.98	1,520.87	2,136.40	2,389.44

Railways in the Five-Year Plans

The main task in the First Five-Year Plan was rehabilitation of over-aged assets which had been subjected to great strain on account of the War and the partition. Large amounts had therefore been spent on rehabilitation of railway stock and for track renewal as also for replacement of other over-aged assets. On account of the heavy replacement demands, the need for expansion could not be fully met in the First Plan.

In the Second Plan again a large provision had to be made for the rehabilitation of over-aged assets. But the emphasis, the Second Plan, shifted to the expansion programme. This me increase in railway mileage and procurement of additional rol stock to meet the growing demands for railway transport arising

from the increased production in the agricultural and industrial sectors of the economy. Over the period covered by the first two Plans, extensive line capacity works were undertaken. These include doubling of about 1,300 miles of single track, the electrification of about 880 miles, the remodelling of a large number of existing tracks. The new lines covered about 1,200 miles in addition to the restoration of about 400 miles dismantled during the War.

The programme of railways during the Third Plan period aims at (i) 2,640 lakh tonnes of goods traffic in 1965-66; (ii) increase of passenger traffic by 15%; (iii) acquisition of 2,090 locomotives, 8,608 coaches, and 1,27,464 wagons; (iv) doubling of 3,928 km., (v) renewal of 8,000 km. of track; (vi) electrification of 2,498 km.; (vii) construction of 2,400 km. of new lines; and (viii) construction of 54,000 new staff quarters.

During the First Plan, Rs. 258.5 crores were spent on the railways and during the Second Plan Rs. 1,106.5 crores. Under the Third Plan as formulated in 1961, Rs. 1,325 crores were to be spent. According to 1963-64 budget, it was stepped up to Rs. 1,470 crores and according to 1964-65 budget it was pitched still higher at Rs. 1,581 crores. This is to cope with traffic and preparatory work of the Fourth Plan. The Plan expenditure of the railways has been stepped up progressively from Rs. 234 crores in 1961-62 to Rs. 308 crores in 1962 63 (R.E.), to Rs. 325 crores in 1963-64 (B.E.) and Rs. 370 crores for 1964-65 (B.E.). The Third Plan programme aims at (i) creating capacity for 2,440 lakh tonnes of goods traffic by 1965-66; (ii) increase of passenger traffic by 15%; (iii) acquisition of 2,070 locomotives, 8,601 coaches and 1,57,246 wagons; (iv) doubling of 3,024 km. of track; (v) renewal of 8,000 km. of track; (vi) electrification of 2,400 km.; (vii) construction of 2,667 km. of new lines; and (viii) construction of 54,000 new staff quarters.

Rail-Road Co-ordination

Railways had to face very severe competition from roads during the 'thirties of the century, so that they could not even pay their share to the General Revenues. The Government, therefore, appointed two Committees, Mitchel Kirkness (1932) and Wedgewood (1937), to suggest ways and means to protect railways against the disastrous road competition. The Committees recommended stricter regulation of motor traffic and provision of greater amenities and more concessions in fares and rates on railways.

Efforts at Co-ordination. In order to stop the ruinous competition between roads and railways the Government enacted the Motor Vehicles Act in 1939 to control motor traffic. So far the State had adopted a laissez-faire policy which gave India an unorganized and inefficient type of road transport. This policy, as the Wedgewood Committee remarked, was giving India "the worst of both worlds—unprosperous railways and inadequate roads."

This Act has been useful in protecting railways against unfair competition. It has eliminated the unfair competition against railways and incidentally safeguarded the life and property of passengers. It provided for the appointment of the Regional Transport Authorities for the various regions into which provinces were divided. **A Provincial Transport Authority was set up in** each province to co-ordinate the work of the regional authorities. These authorities control motor vehicles.

Accordingly, motor vehicles can run only under permit; maximum number of passengers they can carry is laid down; they have to observe prescribed timings, and the working hours and conditions for those employed are also laid down. All motor vehicles are to be insured compulsorily for third party risks. Any infringement of the regulations are visited by fines. Thus, motor transport has been made to function under proper regulation as the railways did.

But it is not enough to regulate motor transport. In national interest, it is essential that all transport services in the country should be so developed as to avoid all waste and duplication of services. A proper policy, therefore, must also aim at developing motor transport in such a way that instead of competing with railways it proves **complementary** to them. In other words, the road services should be feeders of **railway** and also **distribute the traffic carried by them**. Instead of running parallel to railway, roads should be, as far as possible, built at right angles to the railway routes.

Moreover, in the broader interests of the country, there should be a **proper division of functions**. For example, railways are more suitable for heavy and long-distance traffic, while motor transport is more suitable for medium and short distances and for carrying perishable goods.

But where they run parallel to each other, it is essential, as has been discussed earlier, that the competition between the two should be a fair one, i.e., both of them should be subject to proper regulation. In order to avoid mutually destructive policies, railways may be given a share in the ownership of the roadways.

On the recommendations of the Wedgewood Committee the railways started participating in road transport and opened some motor agencies at railway terminals to hill stations where they did not go. Speeding up of trains, running frequent diesel coaches and amenities for lower class passengers further helped the railways to meet road competition. Cutting down expenses, job analysis and lower grades of pay also assisted. The Government promulgated a rail-road co-ordination scheme which aims at unified control of transport and its development. It is intended to prevent unregulated cut-throat competition, stop rate-wars and eschew duplication of services.

So far nothing has been done to define the spheres of different forms of transport. Permanent elimination of rail-road competi-

tion is impossible without that. Railways can carry bulky goods and long-distance passengers cheaper; while motor vehicles will transport goods of a perishable nature and passengers for medium and short distances quicker. As far as possible motor transport should be confined to running on feeder roads; otherwise, as Sir Guthri Russel said, "If motor lorries are allowed to carry the highest rated goods, or to skim the cream of the traffic the result must be a raising of other rates." The objective should be that the various forms of transport do not compete with each other. This can be only if they are properly co-ordinated and their spheres demarcated as far as possible.

Co-ordination means adjustment of different kinds of transport facilities to public needs, eliminating unnecessary duplication and consequent waste of time, money and energy. There is ample room for both roads and railways as well as waterways and airways in this country. They must work in harmony. But voluntary co-ordination is impossible. A complete nationalization of all transport services is also impossible in the present set of circumstances. The only alternative left to be adopted is statutory regulation of transport services so that they do not overlap each other and work in their own spheres.

Railways are a valuable national asset with an investment running in hundreds of crores of rupees and must remain solvent and at the same time be useful. If they are involved in deficits, the burden will fall on the tax-payer. To allow cut-throat competition between roads and railways and ruin the latter would be like cutting one's nose to spit one's face.

In April 1959, the Government appointed the **Rail-Road Co-ordination Committee**, with Shri K. C. Neogy as Chairman, to examine the whole question of rail-road rivalry and to make suitable recommendations for bringing about co-ordination between these two leading modes of transport. The Committee presented three alternatives for rail-road co-ordination but was extremely careful not to commit itself to any. These alternatives were: (i) There should be free and unrestricted competition between different forms of transport; (ii) Co-ordination should be secured through appropriate Government regulation; and (iii) Integration of all the road and rail services into one single unit so as to achieve co-ordination from within the authority responsible for the joint management of all forms of transport. But nothing tangible came out.

To meet India's growing needs of agriculture and industry a systematic development of her transport lines is needed. This can be best done if the problem of co-ordination is tackled successfully. The Government have accordingly promulgated a rail-road co-ordination scheme "which aims at unified control of transport and its development" and will prevent unregulated cut-throat competition, stop rate-wars, and eschew duplication of services. The method adopted is the formation of companies in which road-

operators, railways and State Governments are shareholders. This scheme has been put into effect in some States.

Road services have to be largely ancillary to railways. They will also replace the outmoded bullock-cart gradually. Areas untouched by rail are bound to develop and provide increased transport to roadways. Besides goods traffic, road services are bound to play a more important role in carrying passengers, more especially on short journeys. **Road services can provide substantial relief to railways** if road transport is encouraged to develop properly and unnecessary duplication of routes is avoided.

Co-ordination in the Third Plan. As regards rail-road competition over the Third Plan period a few things are quite clear. In the First Plan, the railways will inevitably have to carry the bulk of the traffic in heavy goods. Secondly, while there is general shortage of transport in the country, it will not necessarily preclude competition between rail and road transport. In preparing development plans, the railways must therefore take into consideration the possible future development of road transport in the regions concerned. Thirdly, railways in many countries in recent years have become losing concerns. In our country too there are some unfavourable factors affecting financial prospects of our railways. We must see that our railways do not take the downward path. Hence co-ordination of rail-road transport is absolutely essential.

For developing an efficient transport system in the country, there should not merely be rail-road co-ordination but co-ordination among all the various forms of transport, i.e., a **comprehensive transport co-ordination.** For this function of co-ordination the Government of India set up the **Central Board of Transport.** It is concerned with major problems of transport in the country and formulates broad policies. It has two functions: (i) Co-ordination of all forms of transport and (ii) Co-ordination of transport plans with plans for agricultural and industrial development. Thus it considers proposals for new railway lines, roads, ports and inland waterways. The economic development of the country would depend largely upon a properly co-ordinated transport system for the country.

The setting up of corporations under the Road Transport Corporations Act, 1950, in which the railways will participate, will lead to the co-ordination of rail transport with road transport, so as to secure integrated operations in the best interests of the country.

For a planned economy, transport co-ordination is of utmost importance so that men and materials can move unhampered. Plans for different forms of transport cannot be considered in isolation. Both the Second and the Third Five-Year Plans lay great emphasis on overall transport co-ordination. For this purpose a National Transport Authority may be set up.

CHAPTER XXIII

Road Transport

Benefits from Roads

The main advantage offered by road transport is its flexibility. Motor vehicles can easily collect and distribute loads from door to door and pick up and put down passengers anywhere. Railways are fixed to their track and cannot undertake this work. A motor company can try new routes and play vehicles where it gets better customers. It does not need much capital to start nor does it need much traffic to earn fair dividends.

India is a country of villages. But villages cannot be served by railways as the distances are small and traffic usually insufficient. A network of roads is, therefore, required to reach the railheads. These roads will not only serve the villages, but will supplement the railway income. Today India is busy with the task of industrial expansion. Plans have been made to harness rivers, modernize agriculture, and expand industries. No progress is possible unless roads are developed. The solution of most of our economic problems depends on the provision of good roads. Both production and distribution of food, raw materials and manufactured goods are dependent on road development.

In addition to benefiting agriculture, good roads encourage trade and help in decentralizing industry. Quick road transport is also an urgent requirement in view of the vulnerability of our seaports to foreign air and sea attack, more specially when our industries are concentrated in these seaport towns.

Road transport not only moves goods to help industry but also brings workers to and from the factories. Buses and trucks are perhaps the only form of transport which can be used for the daily movement of large numbers of people from places round new industrial cities. Thus road transport mobilises material as well as labour resources. It has also been noticed that provision

of roads in backward areas inhabited by Scheduled Tribes has helped them to improve their conditions.

Roads quicken the mental and moral advancement of the country, by bringing the villager to school and college and creating in him the urge to improve. Contact with the outer world is in itself an education. A villager, after a visit to a town, is no less than a Socrates for knowledge. Roads have a cultural aspect which also deserves consideration. A knowledge of better things creates a desire to get them. Roads improve the health of the villager and his animals, as they give him easier access to the doctor and the hospital. They result in better postal services which bring about increased thrift and saving. Roads form convenient thoroughways for telephone and telegraph lines and for electricity, water and sewage mains.

"Roads are the veins and arteries of a country through which channels every improvement circulates."—**(Jeremy Bentham).** The economic significance of roads for agricultural and industrial development and for social progress and political unification can be easily understood. Road building also provides a large volume of employment.

Roads link up the centres of production with those of consumption. They provide the village greater security in life and property. Good roads reduce the strain on draught animals. It is also possible to transport the perishable produce of the village to town and to get rid of some of the middlemen who eat up the profit of the cultivator. Regulated markets are possible only with the development of roads.

Lastly, it must be noted that roads have a vital role to play in the defence of India. It is a vast country, it is not possible to station military units at every point on the frontiers or throughout the country. The effectiveness of Indian defence depends on the speed with which armed forces can be moved to a threatened point. The speed depends on the smoothness of roads. Hence good roads are essential for the defence of the country in the north where we face hostile China and in the east and west where we rub shoulders with Pakistan.

Roads in India

Roads in India were not built for trade and business originally but for military reasons, like the old Roman roads. Hence they were largely trunk roads, the earliest having been built by Sher Shah. They were thus "marching roads"—to march soldiers to the point of danger. This is why they were put in "the charge of military boards", in earlier times. The main roads today connect Amritsar with Calcutta, Bombay and Madras, through Delhi.

India possesses 1,46,513 miles of metalled roads—cemented black topped or macadamized—and over 2,94,113 miles of unsurfaced roads (1961). The total mileage of 4,40,626 is too little for a country of India's size and production. During the first two

years of the Third Plan, an estimated 11,000 miles of surfaced roads were constructed. Out of this mileage nearly 1,50,000 miles are motorable throughout the year. The following table will show how inadequately India is equipped with roads as compared to other countries:—

Table showing road mileage in various countries

Country	*Total miles '000*	*Road-miles per square mile of area*	*Road-miles per 100,000 of population*
Japan	567.0	4.0	728
U.K.	138.6	2.0	381
U.S.A.	3045.4	1.1	2114
India	328.0	0.2	75
Australia	500.5	0.2	6602

The roads in India are classified as: (i) **National Highways**, (ii) **State Highways**, (iii) **District Roads**, and (iv) **Village Roads**.

National Highways traverse the length and breadth of the country, connect capitals of States, large towns and ports. They connect India and foreign countries, viz., Pakistan, Burma, Nepal and Tibet. Since 1st April, 1947, the financial responsibility for construction and maintenance of national highways has been taken over by the Central Government.

The total length of the national highways was 11.9 thousand miles in 1950-51. During the Second Five-Year Plan period, provision was made for their further extension to 17.5 thousand miles and a provision of Rs. 55 crores was made for the development of the national highways. The external length of national highways in 1962-63 was about 16,000 miles. Of this only about 2,300 miles have a two lane carriageway; the rest is all one. The National Highways include: the **Grand Trunk Road, North (Delhi-Amritsar-Pakistan Border)**; the **Grand Trunk Road, East (Delhi-Agra-Kanpur-Calcutta), Agra to Bombay Road, Delhi to Bombay (via Ahmedabad) Road, Calcutta-Bombay Road (via Nagpur),** the **Bombay-Madras Road**, the **Calcutta-Madras Road**, and the **Banares-Cape Comorin Road**. In the Third Plan, it will be possible only to add one more road to the existing national highways, viz., the road from North Salamara to the Brahmputra bridge with a length of about 100 miles.

Then there are **State Highways** which are the main arteries of commerce within the States. They connect district headquarters and important cities with the **National Highways**. They are the responsibility of the State Governments.

District Roads serve areas of production and markets connecting them with one another or with highways and railways. Mostly they are unmetalled and are, therefore, unmotorable during the rainy season.

Village Roads connect villages with one another and with the nearest district road, highway, railway or river **ghat.**

The third and fourth categories are the responsibility of the local bodies.

Road development in India had remained neglected till recently. Owing to paucity of funds with the provincial governments and the district boards, the pace of road construction could only be very slight. In 1928, the **Road Development Committee** reported that road development was a matter of national importance and the provincial governments and the local bodies could not satisfactorily do it. On the recommendations of this Committee, the **Central Road Fund** was set up from which the Centre made annual grants to the provinces for road development.

In 1943 was prepared a long-term road development plan known as the 'Nagpur Plan'. Its objective was that no village in well-developed agricultural area should be more than 5 miles from a main road. It was on their recommendation that the Central Government took up complete financial liability for National Highways. The Plan as adjusted in 1948 envisaged completion of a total length of 1,23,000 miles of surfaced roads and 2,08,000 miles of unsurfaced roads.

At the Centre, the Government have set up a **Road Organisation.** Apart from developing National Highways and giving grants to State Governments this organisation carries on road research, compiles road statistics, arranges bulk procurements of machinery and overseas training of road engineers

Border Roads Development Board was set up in 1960 It is charged with the task of accelerating the economic development of the border areas by making these areas accessible through the development of arterial roads

Defects in the Road System

In addition to being inadequate, roads in India have other defects as well. A good many of them compete against railways.

After 1855, the influence of railways on the construction of roads began to make itself felt. As the railways extended, it was necessary to build roads to feed them.[1] And yet "30 per cent of metalled roads in India are parallel to railways and 48 per cent have metalled roads parallel with them within 10 miles".[2] Such is the tragedy of roads in India which were not built primarily for the economic advancement of the country, but for military and administrative purposes, thus from the economic point of view construction has been haphazard.

The Government were more anxious to build railways in the last century, while roads were neglected. This has been in spite

1. Report on Agriculture, p. 376.

2. Railway Enquiry (Wedgewood Committee) Report.

of the fact that roads are the first link in the production and distribution of agricultural commodities in a country like India where the number of villages is 5,58,089 against 3,018 towns. Unless roads link the village with the town, only subsistence cultivation will be carried on. Lands will lie fallow and perishable produce run to waste. Good roads can convert all this waste into wealth **but senseless competition with railways should be avoided.**

There is no doubt that the country was heading for a major transport crisis during the Second World War and after. Railways were overworked, airways costly, inland waterways had a limited capacity and roads had been neglected. On the other hand, there was an appreciable improvement both in agricultural and industrial production. The completion of the river valley and power projects will further increase the agricultural output. The population has grown and is still increasing. This means movement of more goods and persons. The transport capacity of the country has not improved appreciably.

The World Bank Mission which visited India in June 1956 "urged the Government to review its whole transport policy" and suggested "more energetic measures to remove the State and Inter-State restrictions on road transport and to reduce tax rates on road transport." There is a big gap between the railways' lifting capacity and the goods to be carried during the Third Five-Year Plan period. The only way to meet this gap is the development of roads and road transport. That is why special attention has been given to the road development programme under the Five-Year Plans.

Road Development in the Five-Year Plans

During the War, there was a considerable expansion in roads. Assam and the hills bordering on Burma had a net-work of roads laid for military traffic. A road connecting Pathankot with Jammu was built to render military help to Kashmir against Pakistan.

As stated already, in 1943, an ambitious plan was put forward in the Nagpur Report for 4,00,000 miles of new roads in the post-war period. Complete integration was planned between urban and rural areas to give India an efficient road system within 20 years. The Partition, however, dealt a severe blow to these plans. Inflation and soaring prices also stood in the way of expansion.

The Nagpur Plan was based on anticipated traffic requirements of 1963. As a result of planning, the increase in production has been 30% over 1943 level and at the end of the Second Five-Year Plan it was 110%. There was thus a case for revision of Nagpur Plan targets to meet the new levels of production. In fact a new Road Plan for the next 20-year period has been prepared with the object of raising the road mileage from 3.79

lakhs in 1961 to 6.57 lakhs by 1981 at a total cost of Rs. 4,700 crores.

The road development programmes in the first two Plans were formulated in the perspective of the 'Nagpur Plan'. The Plan as applied to the post-partition India envisaged completion of a total length of 123,000 miles of surfaced roads and 208,000 miles of unsurfaced roads. These programmes have already been exceeded both in regard to surfaced and unsurfaced roads. In the beginning of the First Five-Year Plan in 1950-51, the road mileage was 97,500 miles surfaced roads and 151,000 unsurfaced roads. The mileage rose respectively to 122,000 miles and 195,000 miles at the end of the First Plan and to 144,000 miles and 250,000 miles by the end of the Second Plan in 1960-61. Despite the considerable expansion of road mileage over 10 years, the road net-work remains deficient to certain respects such as unbridged river crossings, substandard surface, narrow carriageway, etc.

The chief engineers of the State and Central Governments have recently formulated another 20-year road development plan for the period 1961-81. The total mileage to be reached at the end of this period is 2,52,000 miles for surfaced roads and 4,05,000 miles for unsurfaced roads. The Plan aims at bringing every village (a) in a developed and agricultural area within 4 miles of metalled road and 1.5 miles of any road, (b) in a semi-developed area within 8 miles of metalled road and 3 miles of any road, and (c) in an undeveloped uncultivable area within 12 miles of metalled road and 5 miles of any road. The achievement of these targets will provide an average of 52 miles of road per 100 sq. miles of area as against 31 miles at present. The road development programmes for the Third Plan have been formulated in accordance with broad objectives of the twenty year (1961-81) road development programme. As in the Second Plan, special consideration will be given to provide missing links, roads in backward areas, rural roads and the construction of strategic roads. About 25,000 miles of surfaced roads are expected to be added during the Third Plan.

Over five years of the First Plan the total outlay on roads was of the order of Rs. 142 crores as against a provision of Rs. 156 crores. The expenditure in the Second Plan was estimated to be about Rs. 224 crores. The cost of the road development programmes in the Third Plan is expected to be Rs. 324 crores.

Motor Transport

Motor buses and trucks and bullock carts are the two forms of transport on roads in India.

The primitive **bullock cart** is the ancient and the most common form of transport in our rural areas. Motor transport is, however, gradually replacing it, though it will take very long before the bullock cart is ousted. About a crore of persons and

2 crores of cattle are said to be employed in the bullock cart industry. In the peculiar agricultural conditions prevailing in our country, the bullock cart is used specially for short-distance hauls.

Motor Transport is the best means of road transport. It is claimed to be better than even railway transport. The manufacturer who has invested his money in production wants goods to reach the customer as fast as possible. It saves investment for the manufacturer, the wholesaler and the retailer who is assured of frequent supply of required quantity and does not have to stock goods for fear of not receiving them in time. Road transport also saves lot of expense to the manufacturer because it requires little, if any, packing charges. Then there is the very heavy pilferage that takes place in railways which is practically non-existent in the case of road transport. Lastly, there is the door-to-door road transport service. Despite these advantages, road transport is still in an under-developed state in India. The number of motor vehicles is still very small considering the size and the population of the country. There is only one vehicle serving 1,350 persons in India as against one for 3 in the U.S.A., 15 in the U.K. and 16 in France. The number of vehicles per 1,000 miles of roads is only 829 in India as against 12,146 in the U S.A. and 14,874 in the U.K.[1]

The domestic production of motor vehicles still falls far short of our requirements. Petrol has also to be imported from abroad. The construction of the three refineries in India has somewhat eased the situation in this respect, but crude petroleum will still have to be imported. Thus, like the railways, motor transport also suffers from **lack of self-reliance.**

After the partition of India, the number of goods vehicles has almost doubled from about 73,000 in 1948-49: the number went up to about 1,17,418 at the end of March 1962 and the number of passenger vehicles rose from 27,275 in 1948-49 to about 59,000—an increase of about 117 per cent. As against the target of 40,000 vehicles set in the Second Plan, the actual production in 1960-61 was expected to be of the order of 30,000. The insufficient supply of new vehicles, particularly during the last few years which is attributable to the shortages of foreign exchange, is the principal factor which has stood in the way of the more rapid expansion of road transport during the Second Plan.

The production target for commercial vehicles in 1965-66 is 60,000 which is twice the level of production in 1960-61. It is roughly estimated that the total number of commercial vehicles will increase from 200,000 in 1960-61 to 365,000 in 1965-66, i.e., an increase of about 82 per cent.

The Planning Commission has been accused of belittling the importance of road transport and of having made a meagre allot-

1. Speech of the Chairman of the Tariff Commission on January 12, 1953, while inaugurating a public enquiry into automobile industry.

ment for it in the Third Plan. Critics have argued for a greater attention to road transport in the Third Plan on the following grounds:

(a) To transport our growing industrial and agricultural output.

(b) Utilising our national investment in roads and providing employment at a much larger rate than the railways do.

(c) Yielding returns to the exchequer at a higher rate than in other industries, including railways.

Motor transport continued to be unorganised for long. As such it gave a severe competition to railways, resulting in deterioration of railway finances. This unorganised and inefficient type of road transport gave India "the worst of both the worlds, unprosperous railways and inadequate roads." It was in 1939 that the **Motor Vehicles Act** was passed to control and co-ordinate motor transport. **Regional Transport Authorities** were constituted in each province to control the plying of motor vehicles.

Nationalisation of Road Transport

If we examine the experience in rail-road competition in other countries, we find that everywhere co-ordination has been introduced to put an end to unregulated senseless competition through control of road transport. Nationalisation of road transport is thus being employed in some countries to eliminate rail-road competition.

Several arguments have been put forward in favour of nationalisation of motor transport in our country:—

(1) The road transport service will be more efficient, because it will be run by properly qualified personnel.

(2) Since the service will be run on a large scale it will be more economical.

(3) The passengers are likely to be provided with better amenities such as comfortable seats, stands, shelters, refreshment rooms, facilities for advance booking, printed fare and time table, first aid arrangements, etc.

(4) The conditions of service for the employees will also improve, especially in the matter of wages, salaries, prospects of promotion, security of service, leave, gratuity, pension, etc.

(5) There will be more effective co-ordination between rail and road services when the road transport is also run by the Government.

(6) The profits of transport will constitute a new and substantial source of revenue for the State. Thus its capacity to finance schemes of economic development will improve.

Actual experience has not fulfilled all these expectations.

The nationalised transport service in some States has not proved very successful. The private operators point out that the profits claimed to have been earned are fictitious. They have been made possible by exemption of Government transport from some taxes and other requirements to which the private operators are subjected. State transport services are said to be suffering from top heavy administration, unnecessarily large staff, waste and inefficiency. It is also said that because of red-tapism and bureaucratic control, the State transport services do not necessarily provide better terms and conditions of service. The railways are under the Central Government and the roads under the State Governments. This division does not ensure more effective rail-road co-ordination.

Hence there should be a phased programme of nationalisation of transport services so that the above-mentioned shortcomings may be avoided.

Most of the States have nationalised transport services partially in varying degrees.

In the First Plan about Rs. 12 crores was provided for nationalised road transport programmes in the States. The investment by the Government in public road transport stood in 1957 at Rs. 35 crores. State Governments have been advised to set up corporations under the Road Transport Corporation Act. 1950, and provision has been made in the railway plan to enable the Railways to contribute their share to these corporations. In addition, a programme of about Rs. 2.8 crores has been approved for the Delhi Transport Service in the plan of the Ministry of Transport. Thus the total investment on road transport in the nationalised sector for the Second Plan period is estimated at Rs. 28 crores. It is reckoned that the programme as a whole will provide for the addition of about 5,000 buses and for construction of the necessary workshops.

CHAPTER XXIV

Transport in India—Waterways and Airways

WATERWAYS

Transport on water has a long history. Phoenicians and Romans carried on trade for thousands of years in oared galleys. Indians and Arabs distinguished themselves as carriers and traders on sea in old times. Water has always been a great highway. It is cheap and does not need much expenditure on docks and quays. Indian waterways transport is of two kinds: (a) river transport, and (b) coastal or marine transport.

River Transport

This is perhaps the cheapest kind of transport. It does not need a permanent way. It works without signals and stations. Even navigation canals, with all their locks and lifts, are not so expensive as railways. Water transport is useful for the carriage of bulky and heavy commodities of low grade like coal, timber, raw ores, etc. The cost of transporting these on water is very low.

Water transport suffers from the drawback of slow speed. Configuration of the country also interferes with it. For instance, the rivers in South India are not good for navigation except in their deltaic stage. In their earlier stages, rivers move through hilly country which makes them unfit for any transport. The length of navigable waterways in India is over 5,000 miles. The important ones are the Ganga and Brahmputra and their tributaries, the Godavari and the Krishna and their canals, the backwaters and canals of Kerala, the Buckingham canal in the Madras and Andhra States, the West Coast canals and Mahanadi canals in Orissa.

Many countries in the world have developed their inland water transport. U.S.A. and Canada have fine systems of lakes

and rivers linked together by navigation canals. The lowlands of North France, Belgium and Holland have a fine network of canals linking up the navigable rivers. It is possible to travel from the Mediterranean to the English Channel by water in France. No dues of any kind are charged for the use of canals. Germany, too, has a well-planned system of canals for carrying bulky goods. English rivers are navigable, but canals have been ruined by railway competition.

Indian rivers in the North have sufficient water throughout the year to carry heavy boats. There was a time when the Ganga was navigable from Calcutta to Allahabad, the Jamuna to Agra, the Sutlej to Ludhiana, in the Punjab, the Chenab to Wazirabad and the Indus to Attock in West Pakistan. Now most of this navigation is extinct. The following causes have worked towards the decay of this river navigation—

(i) Due to construction of railways most of the goods and passenger traffic was diverted from waterways.

(ii) River water was needed for irrigation. Canals were constructed. Rivers dried up and could not be used for carrying traffic. Thus the gain of irrigation was the loss of navigation.

(iii) No efforts were made to modernize river navigation. It still mostly consists of carriage in primitive country boats. It cannot stand up against fast rail and road transport.

(iv) The Government of the day simply ignored waterways.

Once again navigation can be developed on about 10,000 miles of riverways if channels are deepened, link canals dug, regulation works constructed and certain lengths dredged if specially designed craft are used on shallow stretches.

Due to heavy pressure on railways during the last War, the War Transport Department tried to develop alternative means. Measures were adopted to—(a) improve the navigability of rivers, (b) construct new artificial waterways, and (c) use more steamers, tugs and barges.

Development of Inland Navigation

The Government of India are anxious to increase water-borne goods traffic. Rising silt and sand deposits in the Hooghly are threatening Calcutta's maritime position. Hence a ship canal from Diamond Harbour to Kidderpore Docks is proposed. Besides, a River Research Institute has been set up at Poona to study the problem of keeping rivers navigable. There is also the Central Waterways, Irrigation and Navigation Commission, now called Central Irrigation and Power Commission, to work in this direction.

In 1952, the Ganga-Brahmputra Water Transport Board was

set up to develop these waterways under the First Five-Year Plan. The Board has taken up three projects, viz.,

(i) a shallow—draft push—two pilot projects on the upper Ganga;

(ii) similar projects on the feeder rivers of Assam; and

(iii) a project for passenger vehicle ferry vessel on the Brahmputra in Assam.

A survey of river traffic between Allahabad and Buxar (225 miles) has been made and there are other schemes to carry goods traffic on the Gogra up to Bahramghat, on the Sone to Chopan and on the Gandak to Chittaunighat The Damodar Valley Scheme also envisages a navigation canal.

The Ganga passes through U P, Bihar and Bengal. The coal areas, the sugar belt of India and the jute areas can easily benefit if water transport on the Ganga is brought back to life by Government effort. If the Ganga system is properly cared for, the Ganga bids fair to become the Denube of the East. The length of waterways which are navigable is over 5,000 miles.

At present, 1,557 miles of rivers are navigable by mechanically-propelled vessels and 3,587 miles by large country boats. Navigation can be developed on shallow stretches to some extent by deepening the channels, by regulation works, dredging and by the use of crafts specially designed to negotiate such stretches.

The Government is now fully alive to the necessity of developing waterways. The First Five-Year Plan provided only a sum of Rs. 16 lakhs for inland water transport and the Second Plan Rs. 3.40 crores. Actual expenditure was, however, less As against the estimated expenditure of about Rs. 75 lakhs on the development of inland water transport in the Second Plan, the provision proposed in the Third Plan is Rs. 7.5 crores which includes Rs. 6 crores in the Central sector and Rs. 1.5 crores in the State sector.

The Central Water and Power Commission has drawn up a **master plan for inland waterways in the country** in order to provide adequate cheap transport in a developing economy. The plan envisages the linking of the Calcutta port on the east with Cochin on the west via Cuttack and Madras by a network of canals connecting some of the major rivers of Orissa, Andhra and Madras, a continuous waterway from the West Coast to the East Coast through the hinterlands of Bombay, Madhya Pradesh and Andhra.

Marine Transport or Shipping

It is hardly necessary to emphasise the importance of shipping for a country like India which has a coastline of about 3,000 miles and ranks as one of the first six important countries of the world in the matter of international trade. Before World

War II, more than 3/4ths of our coastal trade was carried in foreign ships. Even now 90% of our foreign trade is carried by foreign ships. This means a heavy foreign exchange burden on the country, since our annual freight bill on imports and exports is of the order of Rs. 150-160 crores.

After the attainment of Independence, the Government of India declared its policy to increase the share of Indian ships in the coastal trade. Steamships are being secured for operation on the coast. Besides, a Sailing Vessels Committee was appointed in 1949 to suggest steps for the development of sailing vessels traffic in coastal waters. The Indian tonnage position on the coast has been steadily improving since 1950 when the Government brought coastal shipping under control, introduced the licensing procedure, and reserved coastal trade for Indian tonnage.

The Government fully implemented their coastal reservation policy in 1953. As a result, the entire trade on the coast is now being carried by Indian ships. In this connection, the objectives of the Second Five-Year Plan were :—

(1) To cater fully for the needs for coastal trade with due regard to possibilities of diverting some traffic from railways to coastal shipping, (2) To secure an increasing share of India's overseas trade for Indian ships, and (3) To provide the nucleus of a tanker fleet. With the achievement of the proposed targets, Indian tonnage was expected to carry about 15 per cent of India's overseas trade as against 5 per cent carried hitherto

Shipping in the Five-Year Plans

A Shipping Policy Committee, which reported in 1947, recommended a national shipping policy and fixing a target of 9 lakh tons gross by 1950 and 20 lakh tons in the long period of 5 years. They advocated that India should secure cent per cent of her coastal trade, 75 per cent of her trade with Burma and Ceylon and 50 per cent of her overseas trade. The Government of India also took steps to ensure definite percentages of cargo by Indian ships on overseas routes—about 50% on Burma-Ceylon-Malaya route, 40% on India-Australia run and certain percentage on runs to U.K. and U.S.A.

At the beginning of the First Five-Year Plan, more than half of the coastal fleet was 20 years of age and needed replacement. Further expansion too was needed. The Indian shipping companies had not been able to build up any reserves due to difficult conditions of investment. Our need for ships was urgent due to the fact that we had a long coastline and a large maritime trade. Moreover, a merchant marine is a second line of defence in times of crisis and carried essential supplies during wartime.

Shipping corporations were set up to look after Indian shipping. The Eastern Shipping Corporation was set up in 1952

with an authorised capital of Rs. 10 crores to carry on trade with Australia and the Far East. The Western Shipping Corporation was established in 1956 to operate on India-Persian Gulf, India-Red Sea and India-Poland routes. On October 2, 1961, these two shipping corporations were amalgamated into The Shipping Corporation of India. The new Corporation has an authorised capital of Rs. 35 crores and paid-up capital of Rs. 23 crores. It has a fleet of 23 cargo vessels, 2 passenger-cum-cargo vessels and 2 coastal tankers aggregating to about 2 lakh G.R.T. The Mogul Line Ltd., which is a subsidiary company of the Shipping Corporation of India, has a fleet of four passenger-cum-cargo ships of about 26,000 G.R.T. engaged in the Haj pilgrim traffic. There are more than 30 other Indian Shipping Companies.

The National Shipping Board, which advises the Government on the policy relating to shipping, was reconstituted in 1961.

A fully equipped dockyard has been built at Visakhapatnam which has turned out steamships of 8,000 tons like **Jal Usha, Jal Prabha,** etc. The shipyard's production capacity is at present about 3 ships of modern design per year. Thirty-six ocean-going ships were built by the shipyard up to 1963 and 7 more vessels were under various stages of production. A second shipyard with an initial capacity of 60,000 (to be increased later to 80,000) G.R.T. is being built at Cochin and a provision of Rs. 15 crores has been made for the purpose.

The Government have realised the vital role that Indian shipping has to play in trade and defence. They are, therefore, extending it all possible patronage and assistance. As the Visakhapatnam (Hindustan) Shipping Yard was running at a loss, the Government subsidized the ships constructed there.

A substantial addition has been made in the shipping tonnage during the first two plans. It rose from about 4 lakh G.R.T. in 1950-51 to 4.8 lakh G.R.T. in 1955-56 and to 9 lakh G.R.T. nearly in 1960-61. The target for the Third Plan is 10.9 lakh G.R.T. Actually the target is likely to be exceeded and by the end of the Third Plan period, the tonnage is expected to exceed 13 lakh G.R.T. At the end of December 1963, ships totalling 12.1 lakh G.R.T. were on the Indian register. A sum of Rs. 18.7 crores was spent on shipping in the First Plan, and the expenditure in the Second Plan is estimated at Rs. 52.7 crores. A provision of Rs. 55 crores has been made for shipping in the Third Plan. In addition, a sum of Rs. 4 crores is likely to be available from the Shipping Development Fund—a non-lapsing fund created in 1957 for the expansion of shipping. The shipping companies are expected to contribute Rs. 7 crores from their own resources. It is expected that 57 ships with a tonnage of 3,75,000 G.R.T. will be acquired during the Plan.

The Central Government have accepted in principle the

necessity of affording assistance to the sailing vessels industry by grant of loans or subsidy to owners of sailing vessels who intend to mechanise their vessels. The private sector received loans to the extent of Rs. 24 crores in the First Plan and Rs. 12.5 crores in the Second Plan for adding to their fleet.

India has seven major ports, viz., Calcutta, Bombay, Madras, Moremugao, Cochin, Visakhapatnam and Kandla. A provision of Rs. 75 crores has been made in the Third Plan for the development of these ports.

In regard to the training of personnel for the merchant navy a provision of about Rs. 112 lakhs was made during the First Plan for the construction of the Marine Engineering College at Calcutta and the rating training scheme. A sum of about Rs. 95 lakhs was spent during the First Plan period. A provision of Rs. 40 lakhs was included in the Second Plan, Rs. 35 lakhs for the construction of a new building for the Nautical and Engineering College, Bombay, and Rs. 5 lakhs for the construction of certain additional buildings for the College at Calcutta.

The pace of development, however, is governed by the availability of ships and foreign exchange that can be spared for the purpose. It has to be admitted that the 'growth of Indian tonnage has been a slow process.'

AIRWAYS

Flying began in India in 1911, when a few exhibition flights were given at different places. The War showed that India had a fine geographical position and was astride the world air-routes. The real progress in civil aviation began in India in 1920 when the Government constructed a few aerodromes and equipped them. In 1927, the Civil Aviation Department was formed, aerodromes established and flying clubs founded, but the progress was slow.

During World War II the development of aviation started in India. The civil companies had to give up their normal traffic and had to cater to the defence services. More aeroplanes were purchased, new services were started and their frequency increased. A factory was started at Bangalore for the mass production of aircraft. At the end of the war, India possessed a very large number of aerodromes scattered all over the country.

Civil aviation can play an important part in the defence of the country as it will be of immense use in emergencies as was seen after the Partition in evacuating stranded persons and in relief operations in Assam after the floods and earthquakes.

Another step in the right direction was the erection of a factory equipped with the latest machinery to manufacture aeroplanes at Bangalore. It would stimulate the growing aluminium and other ancillary industries in the country. The factory was

taken over by the Government for military reasons and used for repairing and assembling of planes. It was a red-letter day in the history of civil aviation when the first Indian designed and built prototype H.T.-2 passed tests in 1951. More advanced types, too, have been constructed.

Nationalisation of Aviation

Although a great deal of useful work was being done by the air companies, yet financially they were running at a loss. The Government made careful enquiries into the problem and came to the conclusion that the only way to save the industry from extinction was to nationalise it. Hence the Air Corporation Act was passed in 1953.

All the working air companies were absorbed and two corporations were set up instead, namely:—

(i) The Air India International for operating long-distance air services; and

(ii) The Indian Airlines Corporation for domestic services

Since then improvements have been made in all directions. Aerodromes have been enlarged and effectively quipped. New aerodromes have been constructed. At present (1960) there are as many as 85 aerodromes and 60 air ground radio stations in India. Santa Cruz (Bombay), Palam (Delhi) and Dum Dum (Calcutta) have been converted into first class air ports.

Services of the Air India International now extend to all parts of the world including London, Paris, Geneva, Nairobi, Tokyo, Hong Kong, Indonesia and Australia. Air India International has over 19,000 miles of unduplicated route mileage and has a first class workshop at Santa Cruz. It keeps every aircraft airworthy and has a large number of specialised departments.

Facilities for technical training have been extended. The training centre at Allahabad is the biggest. Officers have been trained in foreign countries. Foreign experts have also been brought to India to train Indians. Ground engineering has also not been ignored. It includes all kinds of facilities, such as meteorological and wireless stations, night landing facilities, termac runways and expert ground engineering services.

The Indian Airlines Corporation has been able to reorganise the different systems followed by the 8 airline companies taken over by it—not an easy task. It has now a number of workshops to maintain and repair airships of different types in Delhi, Hyderabad, Calcutta and elsewhere. It operates its scheduled services throughout India in addition to Afghanistan, Pakistan, Nepal, Burma and Ceylon.

The progress made by the two corporations is clear from the figures in the following table:—

Progress of Civil Aviation in India

Scheduled Internal and International Services

			1951	*1956*	*1961*	*1963*
1.	Passengers carried ('000)	...	449	559	948	11,58
2.	Freight carried ('000 kgs.)	...	3,97,57	4,36,42	4,00,70	3,72,55
3.	Mails carried ('000 kgs.)	...	32,57	57,53	75,34	88,31
4.	Kms. flown ('000)	...	3,13,77	3,77,88	4,43,80	4,70,70

Between 1947 and the commencement of the First Plan, about Rs. 6.6 crores were spent on civil aviation. The expenditure on the First Plan amounted to Rs. 7.24 crores and during the Second Plan Rs. 15.91 crores and the provision in the Third Plan is Rs. 25.5 crores. The programme in the First Plan aimed mainly at making good the deficiencies in aerodromes, communication facilities and equipment. The Second Plan provided for the development of facilities to meet the growing needs of domestic and international traffic. The programme in the Third Plan aims at meeting the new demands which have risen from recent technical advancements and from India's obligations under the convention on International Civil Aviation.

CHAPTER XXV

The Trade of India

The trade of India can be divided into four main classes: (a) internal or inland trade, (b) coastal, (c) external or foreign trade, and (d) entrepot or re-exports of imported merchandise.

A. Inland Trade

Importance of Internal Trade

Improvement in means of transport and communication in recent times has led to phenomenal expansion for foreign trade and created mutual inter-dependence of the countries of the world. Countries like U.K. import raw materials, manufacture them with their machinery and trained labour and export them back at profit. Hence external trade is the mainstay of their prosperity; perhaps of their very existence. Without raw materials and foodstuffs from abroad they will not only lose their pre-eminent position but very likely they will starve. This accounts for undue emphasis which has been laid on foreign trade in such countries.

But the case of India is different. Her internal trade is many times larger than her external trade. Even if we exclude the movement of goods within States, we find that the volume of her internal trade is more than ten times larger than her seaborne trade. "She is a land of such vast dimensions, great population and rich variety of production within her own frontiers that she can well afford to work on an ideal of self-sufficiency." India has a huge self-contained market. Her natural resources are vast and varied. It is reasonable to expect that with an improvement in the means of communication and progress of industry, India's internal trade will steadily grow in volume.

Unfortunately, the internal trade of India did not receive the same attention as her external trade during the last two

centuries. The British Government was more interested in external trade. Railway rates also favoured the latter at the expense of the former. Besides, until recently India was a debtor country and needed a favourable balance of trade over Rs. 30 crores a year. Thus she had to go in for foreign trade willy nilly.

No statistics are available to gauge the exact volume of internal trade in India. Figures of bank clearances do not provide us with a reliable index of either its value or extent. Nor are the railway statistics any more dependable. The amount of goods carried by railways largely depends on the prevailing conditions of trade and on the state of road services. Besides, we do not know the proportion which railway traffic bears to the total volume of internal trade accounted for by all transport agencies including bullock carts. Hence our estimates of internal trade can only be surmised. In 1910, N.P.C.'s Sub-Committee on Trade concluded that "it would be safe to assume that our internal trade is not less than Rs. 7,000 crores. This figure may be contrasted with the size of our external trade which is about Rs. 500 crores." Since then the prices have risen no less than four times. Hence the value of internal trade must have risen at least four-fold[1] to Rs. 28,000 crores against a total foreign trade of about Rs. 1,300 crores only. The economic controls have largely disappeared, hence the internal trade—both in value and volume—can be presumed to have gone up. As the means of communication and transport develop, internal trade is bound to increase even in greater proportion. We may conclude then that India's internal trade is vast and has immense possibilities.

Some indication of the magnitude of inland trade is given by the gross earnings and traffic on railways in India. The gross earnings from railway traffic have increased from Rs. 215 crores in 1946 to Rs. 456.80 crores in 1960-61 for India alone.

The accounts for the rail and river-borne trade of India also give us a similar idea of internal trade. They show us that in 1938-39 no less than Rs. 900 crores worth of goods passed between the 22 trade blocks in India. During war years, big plans of rail and road construction were prepared. As they are coming into effect, the internal trade of India is increasing rapidly. Besides, India is a changed country now. Before the Partition there were 552 princely States. They covered about 4 lakh square miles of area. Most of them had their own customs barriers, which restricted the free movement of goods Now they have all been absorbed in India. This step has stimulated internal trade to heights never anticipated before.

All economic indicators, pertaining to banking, industrial production, railway wagons loaded, agricultural production, etc., go to prove the enormous increase in the trade of India. India's

1. Statistical Abstract of India.

internal trade has now come to occupy its rightful place in the economy.

Future of Internal Trade

With further development in the means of transport and industries, internal trade is bound to grow still more rapidly. The present policy of industrialization in India may bring about a decrease in imports but it is sure to bring about an increase in the internal trade of the country. She has spent away large amounts on capital goods and machinery. This foreshadows a greater utilization of Indian raw materials in the country. The development of organised banking, grading and standardization of commodities, use of cold storage methods for preservation of perishable goods, improvement in the means of transport, dissemination of information about prices, improved methods and facilities of marketing, advertising, improved packing, and collection of statistics are bound to further increase the internal trade. This department of Indian economy is now being given its proper place in the overall picture.

B. Coastal Trade

The coast-wise trade in 1961-62 was of the order of nearly Rs. 517 crores (Rs. 247 crores imports and Rs. 270 crores exports). India is like a pendant amongst the continents. Her geographical position and long coastline of over 2,000 miles indicate a big foreign trade and an important maritime position. By rights she should have had a big mercantile marine and a large carrying trade. But when she was under the political domination of Britain, her overseas trade was dominated by British shipping. In 1939 India had only a lakh and a half gross tons of shipping which was hardly 2% of the world tonnage. Her ships carried a bare 25 per cent of her coastal trade. It is only after the attainment of Independence that India has at last succeeded in getting rid of the incubus of foreign competition in her home-waters and **carrying all her coastal trade in her own bottom**. In order to make coastal trade flourishing two things are required, viz., ports and ships. We have already seen in the previous chapter what efforts are being made to develop both of them.

India is trying to develop a mercantile marine. There were 73 ships with a gross registered tonnage of over 2 lakh tons on the Indian coast in 1951 on the coastal trade and 24 ships of 173,505 G.R.T. engaged in overseas trade. During the First Five-Year Plan the gross coastal tonnage increased from 2.2 lakh tons to 2.4 lakh tons and in the overseas trade from 1.7 lakh tons to 2.4 lakh tons. At the end of the Second Plan it went up to 2.9 lakh tons and 6.1 lakh tons respectively. During the Third Plan coastal tonnage of 132,500 G.R.T. and overseas tonnage of 242.000 G.R.T. will be acquired. Loans amounting to Rs. 15 crores were given to shipping companies at a low rate of interest (2½%) to buy more ships in the First Plan. More loans are en-

visaged in the Second and Third Plans. The over-aged ships are being replaced and new ones are also being added.

The Government have accepted in principle the need for giving assistance to the sailing vessels industry by grant of loans or subsidies to owners who intend to mechanise their vessels. A sum of Rs. 40 lakhs has been provided for the purpose.

Ample provision has been made for training of personnel for the merchant navy.

C. External Trade

The volume and character of foreign trade as a rule plays a vital role in the economy of any country. It is more so in the case of a developing country like India. India is pursuing a policy of planned development. This necessitates careful regulation of imports and intensified efforts towards export promotion to ensure adequate foreign exchange earnings. A study of foreign trade, both qualitative and quantitative, has a special significance in the context of present economic conditions of the country. In this chapter we shall study varying characteristics of our foreign trade, make an analysis of exports and imports, go into the problems of balance of payments and make a short study of import regulations and export promotion measures, and so on.

Characteristics of India's Foreign Trade

India's foreign trade underwent a fundamental change largely on account of the partition of the country. Instead of exporting hide, cotton and jute, India had to import them in large quantities. The serious food shortage created by the partition also affected the character of our foreign trade. Other factors influencing our foreign trade in the post-war years were: our urgent need for machinery, huge pent-up demand for consumers' goods, liquidation of the country's foreign debt, accumulation of sterling balances, etc.

The following are the main characteristics of India's foreign trade during post-war years:—

(i) There was a great increase in the volume of India's trade. The values of both imports and exports rose. There was urgent need for agricultural machinery, hydro-electric equipment, industrial plant and cotton, jute and foodgrains in India. Thus the total value of India's foreign trade amounted to Rs. 926 crores in 1948, Rs. 1,641 crores in 1951 (peak year), Rs. 1,770.79 crores in 1962-63 and Rs. 1,910.45 crores in 1963-64.

(ii) India's balance of trade in merchandise was generally favourable, the exception being the early thirties. But it became unfavourable after World War II The partition made things still worse. India had to import raw materials like cotton and jute in which India (undivided) had been self-sufficient. She also became deficient in food and had to import foodgrains. Besides these, India had to import capital goods and machinery

for replacement purposes. During economic development plans, she has to import more and still more of capital goods and machinery. As a consequence the balance of trade in goods became unfavourable. This is clear from the table below—

Balance of Trade

(In crores of rupees)

		1950-51	*1955-56*	*1960-61*	*1963-64*
Imports	...	650·3	761·4	1,044·74	1,143·60
Exports	...	646·8	640 2	646 29	766 85
Trade Balance	...	—3 5	—121·2	—398·46	—376·75

Thus the chief problem before India, after the war and much more so after the partition of the country, was to increase exports. Export promotion drive has been intensified. Since the foreign exchange position became difficult, the Government, therefore, had recourse to rigid controls over all non-essential imports. They also sought relief through deferring payments for goods purchased abroad and loans from the World Bank and other organisations.

(iii) For a long time under the British regime, India was largely an exporter of food and raw materials. They constituted 70% of India's exports before World War I. Also, India imported mostly manufactured goods which formed 84% of her imports in 1920-21. This position has now undergone a change. Imports of raw goods, especially cotton and jute, increased after the Partition. We had also to import raw jute. With the passage of years, however, India has been producing more of these things and her need for foreign cotton and jute has gone down. In 1951, India imported Rs. 113 crores worth of cotton. In 1955-56 the imports of cotton into India came down to only Rs. 53 crores. We imported jute worth Rs. 71 crores in 1948. Jute imports have also been steadily falling till they dropped down to a figure of Rs. 1.85 crores in 1963-64.

(iv) India was in a perilous condition, due to her shortage of foodgrains after the war. The population dealt another blow. Huge imports of grain were needed. According to Planning Commission 32.7 lakh tons of foodgrains were imported on an average during 1947-52. The First Five-Year Plan succeeded in reducing food imports but the success was short-lived. Total import of cereals amounted to 14.43 lakh tons in 1956, but rose to 34.95 lakh tons in 1961 and 45.56 lakh metric tons in 1962.

(v) Slowly, industrialization is gaining strength in India and a large quantity of manufactured goods is being exported, though we still mainly depend on exports of cotton textiles, jute manufactures and tanned hides and skins, in addition to tea. The devaluation of the rupee in 1949 and later active govern-

ment help have helped in promotion of exports, specially of manufactured goods.

(vi) Another noticeable recent trend is that of increasing imports of machinery, chemicals and metal manufactures. This is due to our efforts to accelerate industrial development and to encourage the manufacture of goods inside the country rather than import them from abroad. In 1963-64 we imported machinery (other than electric) worth Rs. 277 crores nearly.

(vii) Lastly, as compared with pre-war years, the direction of the trade of India shows a shift. Although U.K. still holds an important position in our exports and imports yet U.S.A. is catching her up. Australia, Pakistan, Canada, Burma and Egypt have come to occupy important positions in India's trade sheet. There are great trading possibilities with Middle East countries with which India has forged new links. Indian trade with the Far East has also a future.

Before the war only about 10% of India's foreign trade was with dollar area and **the balance was favourable.** After the war, trade with the dollar area has risen to 25% **and the balance is unfavourable.** Thus for most years after the Partition India's trade balance with Commonwealth countries has been favourable and with other foreign countries unfavourable.

These are a few characteristics of India's foreign trade. We have also seen the changes brought about in recent years.

Direction of India's Trade

By direction of India's trade means the countries with which India has trade relations. Before World War II India exported more to sterling countries. Her relations with Empire countries were much closer. After the war, however, India's exports were about equally distributed between Commonwealth and foreign countries. Our imports from Commonwealth countries were as high as 70% in 1909-14. Since then they have also been falling, till in 1955-56 they were 44% leaving 56% from foreign countries. Thus India is now depending for the supply of her needs for capital goods to a larger extent on U.S.A., Czechoslovakia and Belgium, than on U.K. India's trade with some individual countries should form an interesting study.

U.K. has always been the premier country in India's trade sheet. She has always been heading India's export list. In post-war years, too, she has kept up this position, though the difference has not been so great in some years.

On the import side, U.K. has been losing ground from 63% before 1914 to 25% in the years of World War II. In post-war years she recovered her position to about 30%.

India's balance of trade with U.K. in pre-war and war years was usually favourable but in post-war years it has varied with the controls imposed.

U.S.A. had not penetrated deep into the Indian market be-

fore the last World War. She supplied no more than 6% of India's needs in 1938-39 and took only about 10% of India's exports. During the war years, U.S.A. greatly improved her position in India's import sheet.

Although India has still close commercial ties with U.K. yet U.S.A. has been improving her position. The U.S. market absorbs large quantities of raw jute and jute cloth, goat and lamb skins, lac, cashew nuts and sandalwood. She further purchases coir-matting, coir-yarn and ilminite from India. Indian tea, castor seeds and spices also find a market in U.S.A. Jute and jute manufactures are the most important single item of Indian exports to U.S.A. U.S.A. is India's leading customer in goat and kid skins.

The United States has now come to be a principal supplier of machine-tools, mining machinery and typewriters to India. She also sends gas-engines, tractors and oil-crushing and refining machinery. Another valuable category of American exports to India consists of automobiles, trucks, buses, chassis and parts. Imports of drugs, chemicals and medicines from U.S.A. run into some crores of rupees every year. American toilet preparations are also popular in India. Ninety per cent of India's needs for flue cured virginia tobacco are supplied by U.S.A. India imported very large quantities of foodgrains from U.S.A. in post-Partition years.

India previously enjoyed a favourable balance in her trade with U.S.A. After the war this favourable balance turned into an unfavourable one. One of the problems which India had to solve was how to meet the deficit in trade with U.S.A. India had to draw on the International Monetary Fund to meet the deficiency. She tried to extend exports to hard currency areas which were mainly in a position to satisfy her needs for machinery, machine-tools and plant. For the same reason, she devalued her currency along with other sterling countries in September 1949, and thus succeeded in closing the gap in her trade with U.S.A. to some extent.

India's desire to industrialize is a strong reason why her trade with U.S.A. should increase. India needs capital goods and technical assistance. U.S.A. is one of those countries which are in a position to supply these. India is also keen to invite capital investment from U.S.A. provided there are no political strings attached to it. So far the response has not been very good as Americans feel doubtful of the safety of their capital and power to withdraw it when they like. Besides, they have a more profitable market in S. America.

As regards exports, the present position is that Western Europe accounts for nearly 39% and U.K. 28%. The share of U.K. has remained more or less constant for a number of years. The share of North America declined from 21% in 1952 to 17% in 1956 but increased to 19% in 1960. The share of U.S.A. in

1959 was 15.4%. Exports to ECAFE countries have been stable. The European Economic Community's share has fluctuated between 6.3% and 9.5% over the past 10 years. The share of U.S.S.R. and countries of Eastern Europe has increased from about 1% during the first half of the First Plan to more than 8% towards the end of the Second Plan.

As for imports they increased from Western Europe during the First Plan from 30% to 50% and were 40% at the end of the Second Plan. The share of U.K. in 1959 was 19.5%. Imports from Eastern Europe increased from 2.2% in 1952 to 4.6% in 1956 but declined to 3.7% in 1960. Imports from North America which accounted for 37% in 1952, declined to 12.4% in 1956 but increased again to 25.7% in 1960. The share of U.S.A. in 1959 was 22%. Imports from ECAFE countries have fluctuated between 12 and 14% between 1952 and 1960.

The following table brings out changes in the direction of India's foreign trade during the period of the first two Plans:—

Direction of India's Foreign Trade

Country/area	*Exports* 1952	1956	1960	*Imports* 1952	1956	1960
	%	%	%	%	%	%
ECAFE Countries ...	25.7	16.3	17.0	13.6	12.4	13.1
Japan ...	4.1	4.9	5.5	2.4	5.2	5.4
West Asia ...	5.7	5.8	6.5	7.7	10.8	7.5
Africa ...	3.6	3.9	2.5	3.8	4.0	4.4
Western Europe ...	29.6	39.8	38.5	30.1	50.1	40.4
U.K. ...	20.5	29.8	27.5	18.5	25.0	20.0
European Economic Community ...	7.5	8.3	8.0	8.8	20.0	18.0
Eastern Europe and China	1.3	3.5	8.0	2.2	4.2	.37
North America ...	21.1	17.0	18.7	37.3	12.4	25.2
U.S.A. ...	19.0	14.7	16.0	36.6	11.3	23.7
Latin America ...	1.4	1.0	2.5	—	0.1	0.1
Oceania ...	4.3	4.4	3.1	2.0	1.7	2.3
Others ...	7.3	8.3	3.2	3.3	4.3	3.3
Total ...	100.0	100.0	100.0	100.0	100.0	100.0

Analysis of Exports

India's exports have been practically stagnant over the past decade. The First Plan annual average was Rs. 609 crores and Second Plan average Rs. 612 crores. In volume the Second Plan exports were higher by 9% though it was not reflected in higher export earnings owing to less favourable unit values. In 1962-63, exports amounted to Rs. 693.7 crores. Exports in 1963-64 totalled Rs. 795 crores—the highest on record showing an increase of over Rs. 81 crores over the previous year and Rs. 104 crores more than in 1962. Economic development within the country increased domestic demands and reduced the surplus available for exports. Two main trends can be seen in exports over the past decade: (i) exports of commodities based on agricultural commodities have not improved and (ii) significant increases were achieved in the exports of new manufactures and of products like iron ore, but these were not sufficient to offset the decline in traditional exports. In recent years especially since the middle of the Second Plan period, a series of measures have been initiated for stepping up exports. We shall now discuss the destination of some important commodities exported from India.

(i) **Jute, raw and manufactured.** Before the Partition, both raw jute and jute manufactures were exported. With the Partition, most of the area under jute being in East Bengal went to Pakistan. India became an importer of raw jute, but she exported jute manufactures on a controlled basis. During the post-Partition years, jute goods were in great demand but their production was low, hence the exports had to be strictly controlled. Destinational quotas were fixed with a view to earning dollars and secure food supplies in return. Thus exports to hard currency countries tended to increase.

Jute goods are the best dollar earners for India. They have held the premier place in Indian exports for the last six years. Twenty-two per cent and even more of India's earnings from exports come from jute goods. The day is not far when India shall be independent of Pakistan in raw jute. In spite of India's insufficient supply of raw jute she has been exporting larger and still larger quantities of jute goods.

The main consumers of Indian jute goods are U.S.A., Australia, Argentina, U.K., Cuba, Canada, Egypt, Burma, Nigeria, Thailand, New Zealand, and others.

(ii) **Tea.** The second most important contributor to India's earnings from exports abroad is tea. Earnings from tea are a steady source of income. Differences in earnings from year to year are due to the quantity available for exports and the prevailing market prices.

India produces black tea. Her chief competitor is Ceylon. Green tea from China and Japan has been largely ousted. For

those who drink black tea for a short period, green tea becomes insipid. Indian tea is, therefore, bound to maintain itself.

U.K. is our biggest customer absorbing **two-thirds** of our total shipments. U.S.A. comes next. Exports of tea to Irish Republic also have improved. Canada is another good customer. Export to hard currency countries have increased. The policy is to export freely within an annual quota fixed after considering domestic demand. There is considerable room for increasing exports of tea and coffee. There are areas which have not been tapped yet and even the traditional buyers could by better publicity and quality be persuaded to buy more.

(iii) **Cotton manufactures.** Cotton manufactures hold the third position in India's export list. India holds a very important position among the exporters of cotton textiles in the world. India's best customers of cotton piece-goods are U.K., the Middle East, Australia, Malaya, Ceylon and Indonesia.

(iv) **Oilseeds and Vegetable Oils.** Groundnuts are the most important type of oilseeds produced in India. During war years, India established the Vanaspati industry as well as extended the soap, paints and dyes industries. Hence the exports of oilseeds have decreased. On the other hand, the exports of vegetable oils have greatly increased. Another cause of decreased exports of seeds is the greater consumption of oilcake and groundnut meal.

(v) **Cotton, raw and waste.** Before the Partition, in prewar years, raw cotton had a very important place in the export list of India. With the Partition, it was not only impossible to export cotton, but India had actually to import large quantities of cotton. The imports were always of fine quality long staple cotton. But India was in a position to export some quantity of short staple cotton. Her customers are mainly U.K., Japan and Italy.

(vi) **Tobacco.** India has in her tobacco a source of considerable wealth. Smoking has increased all over the world. A great deal of research is being carried on by the Government of India and the Indian Central Tobacco Committee in South India to improve the quality of tobacco grown in India. As a result, the exports of tobacco are growing. U.K. is our best customer.

The following table gives India's main exports in 1963-64.

India's Exports of Principal Commodities

(In lakhs of rupees)

Commodity	1963-64
I. FOOD	248,51
1. Cashew kernel	21,41
2. Coffee	8,30
3. Tea (Black)	122,22
4. Spices	15,83
5. Oilcakes	35,37
6. Sugar	26,87
7. Others	18,50

	Commodity	1963-64
II.	BEVERAGES AND TOBACCO	21,70
	1. Tobacco unmanufactured	21,01
	2. Others	69
III.	CRUDE MATERIALS, INCLUDING EDIBLE EXCEPT FUELS	131,51
	1. Hides and skins (raw)	9,60
	2. Wool and other animal hair	7,61
	3. Cotton (raw and waste)	16,84
	4. Mica	9,20
	5. Iron ore (including concentrates)	36,38
	6. Manganese ore (including concentrates)	8,26
	7. Lac	4,62
	8. Others	39,01
IV.	MINERAL FUELS, LUBRICANTS AND RELATED MATERIALS	7,71
V.	ANIMAL AND VEGETABLE OILS AND FATS	20,43
	1. Vegetable oils	19,75
	2. Others	68
VI.	CHEMICALS	6,57
VII.	MANUFACTURED GOODS	299,11
	1. Leather and leather manufactures	26,38
	2. Cotton textiles	49,66
	3. Jute textiles	
	(a) Cloth	105,61
	(b) Bags and sacks	47,94
	4. Woollen carpets and rugs	5,26
	5. Art silk manufactures	10,43
	6. Cement	67
	7. Iron and steel	3,51
	8. Others	49,67
VIII.	MACHINERY AND TRANSPORT EQUIPMENT	6,60
	TOTAL EXPORTS	766,85

The year 1963-64 registered the highest rise in exports recorded in any single year. The exports were Rs. 73.25 crores more than in 1962-63. It is significant that this rise was more due to an increase in quantity than to an increase in prices. It is a very healthy development. It shows that even in a period of unfavourable prices, it might be possible for India to increase export earnings. The highest increase was in oilcakes and substantial increases in jute manufactures, tobacco, sugar, hides and skins but decline in cotton textiles, raw wool and cotton, manganese ore, ferro manganese, iron and steel and steel scrap.

Export Promotion

Hard up for foreign exchange, India has been making strenuous efforts in expanding her export trade. Series of export promotion measures have been adopted with a view to in-

creasing foreign exchange earnings. In February 1957, an Export Promotion Committee was appointed to make a comprehensive study of all aspects of export promotion. In its final report, submitted in August 1957, the Committee has laid down the following essential pre-requisites of policy: (i) a sustained increase in production in all sectors, particularly agriculture; (ii) maintenance of prices at competitive levels; (iii) the exports should be encouraged even at the cost of domestic consumption; (iv) diversification of exports and export markets; and (v) research into new uses for the traditional export commodities and adaptation of production to such new uses. Other recommendations include better export credit facilities by the Reserve Bank and the State Bank, better publicity for Indian goods, increasing participation of Indian shipping companies in carrying the trade, of effective quality control of export commodities and elimination of malpractices of Indian exporters.

The measures of export promotion adopted during the last few years include (a) organisational charges, (b) increased facilities and incentives and (c) diversification of trade. To the first category belong the establishment of Export Promotion Councils set up for various export commodities, the setting up of the Export Risks Insurance Corporation, and increased facilities for publicity, fairs, exhibitions, etc. The second set of measures of incentives include removal of export controls and quota restrictions, abolition of export duties, refund of excise duties, special import licences for raw materials and priorities for transport facilities. Thirdly, substantial progress has been made in the diversification of India's foreign trade through the State Trading Corporation and the development of trading relations with U.S.S.R. and countries of Eastern Europe.

These efforts have not proved to be adequate so far, one of the main reasons being that the export programme has not been regarded as an integral part of our Five-Year Plans. If substantial increase in export has to be achieved, (a) domestic consumption must be restricted, (b) comparative profitability of exports must be increased, (c) cost structure and productivity of export industries must be made competitive, industrial licensing policies should also be oriented towards export promotion, and (d) public opinion must be mobilised in favour of exports, co-operation of trade and industry secured, Government's organisation for research and intelligence and commercial representation abroad improved and facilities for credit, insurance, etc., enlarged. These will be the main export objectives of the Third Plan.

During the Third Plan, a programme has been chalked to bring about marked increase in exports. This programme covers (a) general policies, and (b) measures relating to specific commodities. The aims of the general policies are to create the necessary climate for export effort to restrain domestic demands and enlarge surpluses available for exports and to reduce pro-

duction costs to make Indian industry more competitive than at present it is. Diversification of exports and development of new export markets are also essential parts of the export promotion programme. The Planning Commission formulated a very ambitious export programme for the Third Plan period, the export target (revised) being 3,700—3,800 crores.

The Board of Trade in its meeting in September 1962 decided to set up an export sector consisting of industries which have greater export potential as well as those working mostly for exports. It was suggested to give them further assistance to enable them to increase their contribution to exports. The main consideration in setting up of an export sector is that any facilities and privileges that may be granted to industries should have full effect upon production, costs and quality.

The Mudaliar Committee (report presented in March 1962) recommended for the exporters selective concessions, fiscal reliefs and other incentives, the Committee recommended increased allocations of raw materials to export-oriented industries. It also suggested the establishment of a revolving fund of Rs. 25—30 crores to finance the import of these additional materials. Several fiscal incentives were recommended including a three-fold system of tax remissions: a remission of 7½% on profits on basic exports, a tax rebate of 5% on all export earnings to enable exporters to build up export development reserve and a special tax remission of 10% on earnings on additional exports, i.e., exports over the basic norm. The Committee also recommended a general rebate by the Railways of about 25% on all goods put on board. The Committee also made some specific recommendations relating to some important export industries so as to remove their difficulties.

The Department of International Trade prepared a comprehensive export plan for 1962-63 fixing export targets for principal commodities. It prepared a costs reduction programme for principal export industries. It has pressed for public recognition for outstanding performance. But in comparison with export targets set in the Third Plan, the actual achievements have lagged far behind. In order to achieve the Plan target of annual average exports of Rs. 740 crores during the Plan, the exports will have to average Rs. 783 crores in the next three years.

The Board of Trade undertook during 1962-63 a detailed commodity-wise and country-wise review of India's exports. The specific measures adopted to boost exports were: (i) to acquire statutory powers to enforce quality control and pre-shipment inspection of exports, (ii) to authorise export promotion councils to recommend imports of raw materials, components and exports; (iii) to free a large number of items from export restrictions; (iv) to extend to a number of additional commodities, fiscal incentives, either by way of rebate of the control excise duty and/or by a drawback of the customs and excise duties paid on the materials used in the manufacture of export-

able goods; and (v) to enlarge credit facilities for exporters, both short-term and medium-term, from the Reserve Bank, and the Refinance Corporation. More vigorous drive was launched in 1963-64 for boosting exports. The previous measures were extended and intensified.

As recommended by the Study Group on Export Finance, the Export Credit and Guarantee Corporation was set up in January 1964 and the existing Export Risks Insurance Corporation was merged with it. The authorised capital of the E.C.G.C. is Rs. 5 crores and the paid-up capital Rs. 2 crores. The Corporation will mainly play a co-ordinating role and will not compete but collaborate with the banks in the provision of export credit finance. The Corporation will grant credits and guarantees in foreign currencies to facilitate the import of raw materials or semi-finished goods for the manufacture or processing of export goods. Some of the important functions of the Corporation are: (a) to provide insurance to exporters against any risk, commercial and political, (b) to give guarantee to banks to assist exporters, (c) to give guarantees to or for the benefit of persons of a foreign country for goods exported from India, (d) to provide supplementary finance for promotion and development of exports, and (e) to give loans against pledge of goods or property for promoting export trade.

Besides, measures were taken to stabilise the prices of some export commodities. The Export Risks Insurance Corporation enlarged its activities, the risks covered rising from Rs. 13.5 crores in 1961-62 to Rs. 23.1 crores in 1962-63. The State Trading Corporation continued its efforts towards expanding India's trade, particularly with East European countries. These measures are bound to tell in course of time.

It should, however, be understood that export finance is but one instrument in the armoury of export promotion. Liberal credit facilities, by themselves, will not be of much avail, if the costs of Indian goods remain high, prices uncompetitive and quality and deliveries uncertain.

It seems that it is not easy to expand substantially our traditional exports. In tea India is already supplying the world markets and other countries (e.g., East Africa) are trying to grow their own tea. The market for jute manufactures has been static and there is competition from Pakistan. Rival packing materials are being developed or deliveries in bulk are increasing. There are keen competitors in markets for cotton textiles, e.g., Japan and Hong Kong. There is not likely to be substantial net surplus in traditional agricultural exports over internal requirements. The growth of internal demand will eat away the surpluses.

There is, however, a possibility of development of new exports. But it will take time to master production problems and develop supplies which are reliable both in quantity and quality.

Also, it seems easiest to develop the export of some of the things which are needed by the home market itself, e.g., steel.

Imports

Let us now survey our imports. Over the past decade the imports have been increasingly affected by our economic development plans. To meet the needs of a developing economy and industrial development the level of imports has risen substantially. Over the First Plan period the total imports amounted to an average of Rs. 724 crores. In the Second Plan, there was a sizeable step up of imports on account of the larger requirements of capital goods, raw materials, intermediate products, components, etc. For the Second Plan-period as a whole the average was Rs. 1,072 crores which was about 50% higher than the First Plan average. The Third Plan has a larger investment programme and is to give a continued priority for the development of basic and heavy capital goods industries. It will thus entail larger import requirements than the Second Plan. The total import bill for the Third Plan is, thus, estimated at Rs. 5,750 crores in addition to PL 480 imports of the order of Rs. 600 crores. The average level is expected to be Rs. 1,270 crores, as against Rs. 1,072 crores in the Second Plan. In 1963-64, they were of the order of Rs. 1,143.60 crores.

In recent years, the import trade of India in private merchandise has been going up. This high level of imports may be attributed to (i) an unexpectedly high tempo of industrial activity in the private sector, coinciding with large-scale import demands in the public sector, (ii) larger imports of foodgrains, and (iii) the cumulative effects of successive liberalisation of import policy in the past. The figure for 1938 was only Rs. 153 crores. The figure in 1951-52 was Rs. 868 crores. The upward trend was mainly due to the urgent need for food and capital goods. But in view of the foreign exchange difficulties, the imports of several lower priority items were cut. There was also some reduction in the imports of priority items produced in India. Most of the imports are for the maintenance and development of the economy.

Among the imports, petroleum and petroleum products is a very big item (Rs. 79.04 crores for 1963-64). There is not much likelihood of a fall here as with the development of road and air transport in India, the consumption of aviation and motor spirit is bound to increase. With the establishment of refineries in India, the imports of crude oil will increase and refined oil decrease. A still bigger item is the import of foodgrains. The imports of foodgrains went down from the stupendous height of Rs. 228 crores in 1951-52 to a mere Rs. 17 crores in 1955-56. The remarkable decrease was the result of almost complete self-sufficiency achieved in foodgrains in the First Five-Year Plan. But imports of foodgrains again rose so that in 1963-64 they were valued at Rs. 163.01 crores. Foodgrains are mostly imported

from U.S.A., Canada, Australia, Argentina, Russia, Burma and Egypt.

The imports of raw jute and raw cotton stand parallel, the first went down to Rs. 19 crores and the latter to Rs. 57 crores in 1955-56 from Rs. 67 crores and Rs. 137 crores respectively in 1951-52. These are achievements to be proud of. The import of machinery also constitutes an important item. In 1963-64, machinery and transport equipment worth Rs. 421.57 crores were imported.

The bulk of fuel oils and lubricating oils used to come from Iran but since the rise of political difficulties in Iran, our oil supplies have come from Burma, Bahrein, U.S.A., etc. India does not import much edible oils, Ceylon is our source for coconut oils valued at about a crore of rupees. U.K. and U.S.A. are our main sources for all kinds of machinery, textiles, electrical and metal working. In fact our needs in most manufactured goods are supplied by these countries, but Japan, Italy, West Germany and Canada are also in the picture now.

Switzerland and Belgium also contribute their share in manufactured goods to satisfy the needs of India.

Imports of raw material and manufactured goods have increased in recent years, showing that India has now started on the road of industrialisation, as most of the manufactured goods pertain to machinery, mill work, electrical goods, chemicals, etc.

Another point which may be noted is the catholic choice of countries from which we obtain our machinery. U.S.A., U.S.S.R., U.K. or Japan whichever can deliver the goods is acceptable to us.

The following table gives imports of principal commodities in 1963-64:

India's Imports of Principal Commodities

(In lakhs of rupees)

Commodity	*1963-64*
I. FOOD	163,01
1. Cereals and cereal preparations	129,76
(*i*) Wheat	102,86
(*ii*) Rice	20,40
(*iii*) Others	6,51
2. Cashewnuts	10,93
3. Spices	70
4. Others	21,62

	Commodity	1963-64
II.	BEVERAGES AND TOBACCO	1,07
	1. Tobacco unmanufactured	79
III.	CRUDE MATERIALS, INEDIBLE EXCEPT FUELS	122,58
	1. Hides and skins (raw)	3,32
	2. Copra	8,79
	3. Crude rubber	9,75
	4. Cotton raw other than linters	48,98
	5. Jute raw including cuttings and waste	1,85
	6. Wool raw and other animal hair	15,72
	7. Others	34,16
IV.	MINERAL FUELS, LUBRICANTS AND RELATED MATERIAL	104,52
	1. Petroleum crude and partly refined	46,17
	2. Kerosene	25,38
	3. Other petroleum products	32,87
	4. Others	10
V.	ANIMAL AND VEGETABLE OILS AND FATS	4,87
VI.	CHEMICALS	88,40
	1. Chemical elements and compounds	32,01
	2. Dyeing, tanning and colouring materials	8,04
	3. Medicinal and pharmaceutical products	8,34
	4. Fertilizers, manufactured	27,49
	5. Others	12,52
VII.	MANUFACTURED GOODS	195,53
	1. Paper and paper boards and manufactures thereof	11,86
	Newsprint	6,93
	2. Art silk yarn and thread	10,45
	3. Iron and steel	89,64
	4. Non-ferrous metals	55,57
	5. Metal manufactures	15,56
	6. Others	12,46
VIII.	MACHINERY AND TRANSPORT EQUIPMENT	421,57
	1. Machinery other than electric	277,33
	2. Electric machinery, apparatus and appliances	83,48
	3. Transport equipment	60,76
	(i) Railway vehicles	16,40
	(ii) Others	44,36
IX.	MISCELLANEOUS MANUFACTURED ARTICLES	35,38
	GRAND TOTAL	1,144,60

Balance of Payments

In the pre-partition era, India had almost always a favourable balance of trade. However, after the war, especially after Independence, the position of balance of payments was reversed, i.e., Indian balances of payments became heavily adverse. This was caused by heavily adverse balances of trade year after year. We shall now review the position since Independence in some detail. A close study of our balance of payments is very necessary because balance of payments has a very vital connection with our economic development. A difficult balance of payments position can be a serious hurdle in the way of economic progress since in that case the country may be unable to import the necessary capital goods, industrial raw materials and technical know-how without which economic development may be seriously held up. A favourable payments position, on the other hand, will greatly accelerate the pace of economic development.

India's balance of payments since Independence may be studied broadly in **three** phases: (a) from Independence till the devaluation of the rupee in September 1949; (b) from devaluation till the end of the First Five-Year Plan, i.e., till 1955-56; (c) since the commencement of the Second Five-Year Plan. While some common factors operated throughout the whole period, yet broadly different factors have dominated the country's balance of payments in the above-mentioned three distinct phases. Now each of these phases may be discussed.

(a) First Phase: From Partition to Devaluation

The war-time surpluses in India's balance of payments were quickly reversed after the war, especially after partition. This was something unprecedented in the history of the country's external payments. In the calendar years 1948 and 1949, India ran into deficit to the tune of Rs. 100 crores and Rs. 181 crores respectively. The causes are not far to seek. Mainly these deficits in balance of payments arose from the seriously adverse trade balances, and the latter were the result of the following factors:

(i) **Heavy imports of food.** This happened in a period of overall world shortage of food and, therefore, of very high food prices.

(ii) **Heavy imports of industrial raw materials—raw jute and cotton.** Raw cotton, raw jute and hides and skins had been our main exports before partition but now they had to be imported at a very heavy cost.

(iii) Owing to war-time controls and austerity measures there was a **huge pent-up demand for consumers' goods** from abroad. While the financing of the war had increased money incomes, scarcities had kept down consumption. The result of all this was that imports had to be very large.

(iv) During the war even normal replacements and renewals of industrial plant and machinery had not been effected. After the conclusion of the war, capital goods had to be imported for the purpose.

(v) The country embarked upon **big schemes of development**, river valley projects, industrial enterprises, etc. These necessitated **huge imports of capital equipment.**

(vi) **Inflation in the country** made her a good market to sell in and a bad one to buy from The inflation had been caused by the defective war finance policy of the Government.

(vii) **Production crisis in the country.** Curiously, agricultural and industrial production both declined as compared with the pre-war years—owing to labour unrest, natural calamities, etc. Thus much less was available for export and more had to be imported.

(viii) **Opening of large number of embassies, legations,** etc., and greater share in international conferences entailed greater foreign exchange expenditure on account of invisible items.

The Government could not be a passive spectator to the worsening balance of payments. Efforts were made to increase production within the country, both agricultural and industrial, the former through **Grow-More-Food Campaign** and **Grow-More-Cotton** and **Grow-More-Jute** drives For **encouraging industrial production several tax-concessions** and other incentives were provided. But since all these measures failed to improve the situation appreciably, the desperate step of **devaluing the rupee** was taken in company with other sterling area countries. **Import restrictions were tightened** and several measures were adopted to encourage exports, mainly on the recommendations of the **Gorwala Export Promotion Committee** of 1949.

A special feature of the Indian balance of payments during this period was the **particularly large deficits with the hard currency countries,** notably with the dollar area. Apart from the devaluation of the Indian rupee in terms of the U.S. dollar far more stringent restrictions were imposed on imports from the dollar area and special concessions and incentives were offered for exports to the hard currency countries.

(b) Second Phase: From Devaluation to the end of the First Five-Year Plan

First of all the balance of payments during this period may be set out in the following table:

(In crores of rupees)

	1950-51	*1951-52*	*1952-53*	*1953-54*	*1954-55*	*1955-56*
Exports (f.o.b.)	646.8	730.1	601.9	539.7	596.6	640.2
Imports (c.i.f.)	650.3	962.29	633.0	591.8	683.8	76.14
Trade Balance	—3.5	—232.8	—31.1	—52.1	—87.2	+121.1
All Invisible (net)	+42.4	+70.2	+91.3	+99.5	+93.2	+133.5
Current A/c Balance of Payments (net)	+39.9	—162.6	+60.2	+47.4	+ 6.0	+12.3

It will be seen that with the exception of one year, viz., 1952-53, **India's balance of payments during this phase closed with a surplus,** though the magnitude of the surplus was declining. Another notable feature is the **uniformly adverse trade balance** throughout the phase, the surplus balance of payments being due to **positive balance in respect of invisible items.**

Let us see how this improvement occurred. The immediate cause of improvement at the very outset of the phase was the devaluation of the rupee coupled with stringent import restrictions. In the middle of 1950 the **Korean war** broke out, which led to greater demand for and higher prices of India's exports. The year 1951-52, however, stands out as an exception, with a very heavy adverse balance of trade, mainly arising out of the very high imports of foodgrains (valued at Rs. 228 crores in 1951-52) which were necessitated by a series of natural calamities in the country. Imports of raw cotton too were very heavy. In the subsequent years of this phase, domestic production—both agricultural and industrial—started rising appreciably so that import bill was lower, particularly in respect of foodgrains, raw cotton and raw jute. Compare, for example, the value of food imports in 1955-56 (Rs. 29 crores) with the food bill of Rs. 228 crores in 1951-52. It must, however, be admitted that a great deal of the improvement in crop production was due to favourable climatic conditions. In the industrial sector, investment during the First Plan was rather modest and was, therefore, not reflected in very high imports of capital goods.

(c) Third Phase: The Period of the Second Plan

The balance of payments position during the Second Plan period and the first year of the Third Plan is as under:

(In crores of rupees)

	1956-57	*1957 58*	*1958-59*	*1959-60*	*1960 61*
Imports (c.i.f)	1,099 5	1,233.6	1,029.0	928.3	1,105.7
Exports (f.o.b.)	635.2	594 1	576.3	623.7	630.5
Trade Balance	—464.3	—639.5	—452.7	—304.6	—475.2
Official donations	39.5	+138.1	35.8	+38.3	+45.2
Other Invisibles (net)	112.5	...	90.8	+81.2	+37.6
Current Balance of Payments (net)	—312.3	—501.4	—326.1	—185.1	—392.4

The Second Plan was, as it were, a signal for huge deficits in the country's balance of payments. It will be noticed that this is due to a sudden and large rise in imports, from Rs. 761 crores in 1955-56 to Rs. 1,09t crores in the following year, and higher still to Rs. 1,233.6 crores in 1957-58. In 1960-61, they were of the order of Rs. 1,100 crores nearly. Exports have, on the other hand, been more or less inelastic, actually falling to a lower than the usual level since independence.

A very notable feature of these huge deficits is that these have been largely the **result of heavy development outlay** of the Second Plan. The biggest rises have been in the **imports of machinery and iron and steel.** For example, the value of the imports of machinery and metals went up from Rs. 299 crores in 1955-56 to Rs. 346 crores nearly in 1960-61. Unfortunately the food bill has also been running at a very much higher figure. As against only Rs. 29 crores in 1955-56, in 1960-61, these imports amounted to nearly Rs. 214 crores. Other contributory factors have been the **heavier demands of defence,** the increased **requirements of raw materials, spares components, replacements, etc., for matching levels of industrial production and increase in prices and freight rates.**

The consequences of such heavy deficits were bound to be disastrous on the country's limited foreign exchange reserves, which got depleted at a heavy rate and caused great alarm. Desperate measures have had to be adopted. The legal provisions regarding foreign reserves with the Reserve Bank were amended in October 1957. The existing **statutory minimum of foreign securities** worth Rs. 400 crores and gold coin and bullion worth Rs. 115 crores was then **drastically reduced** to Rs. 200 crores including Rs. 115 crores worth of gold. **Import restrictions** have been **greatly tightened;** importers of capital goods are given licences only if they have already arranged **deferred payments** or it would be possible for them to meet their foreign exchange earning from their projects. A large number of **measures of export promotion** have also been adopted. These measures in question were fairly widely conceived and included organisational changes, increased facilities and incentives and diversification of trade. (These measures have been mentioned earlier.) But all these expedients could have had only a limited utility in overcoming the unprecedented foreign exchange crisis. The most effective measure has, therefore, been the **financial assistance,** largely by way of loans, provided by **friendly Governments** (like the U.S.A., U.K., West Germany, Japan and the U.S.S.R.) and **international organisations** like the World Bank. But for the very large amounts of foreign exchange thus made available, India could not have honoured her commitments. It may, however, be said that perhaps such foreign exchange crises are inescapable when a country is engaged in quick development of its economy.

It will be seen that years 1958-59 and 1959-60 had registered an improvement in the balance of payments position. This improvement was almost entirely due to the drastic cutting down of imports. But the position in 1960-61, the last year of the Second *Plan, had again deteriorated.*

(d) Fourth Phase: Balance of Payments in the Third Plan

Despite the substantial flow of external assistance during recent years, India's balance of payments has remained under

continuous pressure. The foreign exchange reserves of the country (excluding gold but inclusive of Government balances) had declined sharply from Rs. 785 crores to Rs. 186 crores during the Second Five-Year Plan. During the first two years of the Third Plan, the payments position remained difficult and there was a further decline in foreign exchange reserves of approximately Rs. 9 crores in spite of drawals of Rs. 131 crores from the International Monetary Fund.

Assistance from the Fund is available only for meeting temporary difficulties and has to be repaid over a period of three to five years. It was hoped that, with progressive improvement in export performance, import replacement, and aid utilization, the payments position would improve over the later years of the Plan.

During 1963-64, the payments position took a favourable turn. Exports increased by as much as Rs. 120 crores and the increase in imports of Rs. 129 crores was largely off-set by improvement in the utilization of available aid. Altogether, despite larger payments for debt servicing, the country was able to add to its depleted reserves a modest amount of Rs. 11 crores after repaying a sum of Rs. 24 crores to the International Monetary Fund.

The improvement in the payments position witnessed during 1963-64, however, has not been maintained during the current year. In fact, foreign exchange reserves have declined sharply by Rs. 88 crores during the 10 months ending January, 1965, and only a small part of this decline (Rs. 12 crores) is explained by repayments to the International Monetary Fund. Reserves declined by Rs. 55 crores during the lean export months of April to September in 1964—i.e., at twice the rate of decline in the corresponding part of 1963. Contrary to normal seasonal trends, the decline in reserves has continued during October 1964 to January 1965. With foreign exchange reserves of the order of just Rs. 100 crores at the end of January 1965, the payments position had obviously reached a critical stage, particularly in view of the requirements of the coming lean season and large repayment obligations (of Rs. 95 crores over the next 16 months) to the IMF.

In part, the unusually large decline in reserves during the last ten months is the result of larger Government imports of foodgrains, and fertilizers, and the consequent increases in shipping charges in respect of these imports. Debt charges have also shown an increase. On the other hand, there has been a further increase in exports during the year, although a large part of this improvement has been in respect of exports to rupee payment countries and has been paid for mainly by drawals on rupee *balances built up by these countries in the past. There is reason to believe also that larger exports have not been reflected fully* in actual foreign exchange earn ngs.

Balance of payments position during the last few years is given on page 424 :—

India's Balance of Payments

(*In crores of rupees*)

	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1964-65 Total April-Sept.
Imports (c.i.f.) ...	1029·3	932·3	1105·7	1006·0	1091·3	1230·7	688·6
(a) Private ...	511·8	524·2	644·0	641·7	626·0	620·3	311·6
(b) Government ...	517·5	408·1	451·7	364·3	465·3	610·4	377·0
Exports (f.o.b.) ...	576·3	627·4	630·5	668·3	682·2	801·7	406·0
Trade balance ...	−453·0	−304·9	−475·2	−337·7	−409·1	−429·0	−282·6
Non-monetry gold movement	...	5·9	...	...	...	...	...
Official donations ...	35·6	38·0	45·2†	45·9	76·7	78·9	100·2
Other invisibles (net) ...	90·4	75·4	37·6*	−14·6*	−13·1*	14·8*	20·2
Current account (net) ...	−327·0	−185·6	−392·4	−306·4	−345·5	−335·3	−162·2
Errors and omissions ...	−29·1	−24·5	−6·3	7·8	−4·3	−46·6	−47·3
Official loans (gross) ...	225·5	187·3	256·6	274·1	394·9	442·8	318·9
Other capital transactions (net)	83·3	30·6	93·6	−40·2	−59·3	−26·3	−152·9
Transactions with IMF (net)	...	−23·8	−10·7	58·4	11·9	−23·8	−11·9
(a) Drawings ...	...	...	...	119·1	11·9	...	...
(b) Repayments ...	...	23·8	10·7	60·7	...	23·8	11·9
Movement in Foreign Exchange Reserves (Increase +) (Decrease −) ...	−42·3	−16·0	−59·2	−6·3	−2·3	+10·8	−55·4

†Includes Rs. 8·4 crores earmarked by U.S. authorities to finance export of goods and services to Nepal under their economic aid programme to that country.

*Includes Rs. 8·3 crores paid to the I.B.R.D. as India's contribution to the Indus Basin Development Fund under the terms of the Indus Water Treaty signed on September 19, 1960.

Note :—Imports and exports data include exports from and imports into Goa for the period 1962-63, 1963-64 and first half of 1964-65.

Trade Policy

Indian trade policy up to 1923 was based on **laissez-faire,** i.e., a policy of free trade. From that time was adopted a policy of **discriminating protection.** Deserving industries were granted protection by means of import duties on competing goods. The Great Depression of 1929 created difficulties for all countries in the world and as means of recovery, the Empire countries participated in a scheme of Imperial Preference in which India had also to join. India thus entered into a number of trade agreements on the basis of exchange of preferences. The Second World War necessitated stringent control on trade.

India's commercial policy is thus based on the principle of protecting some of her industries and in the remaining sphere, reduction of tariffs for the countries with which she has concluded agreements under the GATT. She is also a party to the Ottawa schemes of imperial preferences, now called 'Commonwealth Preferences'. India's trade with Pakistan is treated as resting on a different footing and the concessions exchanged with Pakistan are not necessarily to be extended to the other countries of the GATT.

There have been **three** other important features of the Indian commercial policy in recent years.

Firstly, stringent restrictions have been put on imports. During the War (II) it was natural that imports be restricted. After partition, the balance of trade became heavily adverse so that it could be corrected only by imposing restrictions on imports. Since there was an acute scarcity of dollars and deficit with dollar countries had been becoming bigger and bigger, imports from dollar and other hard currency countries were specially restricted. Non-essential consumption goods are also not allowed to be imported with a view to conserving foreign exchange for importing foodgrains, essential raw materials and capital goods. Import restrictions are necessary also for ensuring that home industries do not suffer from foreign competition. An **Import Advisory Council** has been set up to advise the Government on its import control policy. Between 1954 and 1956, import restrictions were relaxed in view of the improvement in the balance of payments. But the foreign exchange crisis that has developed since 1956, owing to the heavy imports of capital goods and iron and steel, has necessitated intensification of import restrictions, especially on consumer goods. In regard even to the import of capital goods, import licences are issued for approved capital goods where the import values have been covered by long-term overseas investment. In other cases it is necessary for the importer to satisfy the Government that the terms of payment are such that it would be possible to meet them out of the savings in foreign exchange earning from the project.

In recent years, consistent with the limits set by available foreign exchange resources, quotas for imports of commodities have been varied taking into account the progress and stock

position of the indigenous industries. For instance, for the period October 1961—March 1962 quotas were reduced for a number of items and imports of some others were banned. The list of items for which actual users were granted licences was expanded by the addition of some more items. The import policy during 1962-63 continued to be directed primarily towards realising the general objectives of the Third Plan. Maximum possible assistance has been afforded to export industries within the limits set by available foreign exchange resources. The quantum of licences issued on an annual basis was stepped up as recommended by Mudaliar Committee. The policy pursued during the year was restrictive cutting established importers' quotas and banning of some items altogether. Fiscal restraints were imposed on imports and 1963-64 budget levied increased customs duties.

Secondly special efforts have been made to increase exports The Government appointed the **Gorwala Export Promotion Committee** in 1949 and another Export Promotion Committee in 1957 to make recommendations for stimulating exports. An **Export Advisory Council** was also appointed to advise Government on the working of the export-control policy Several export duties have been either lowered or abolished with a view to encouraging exports. Several trade missions have also been sent to foreign countries to explore possibilities of expanding exports. In order to make up the trade deficit with dollar and other hard currency countries, exports to such countries were specially encouraged. Export Promotion Councils have been set up for several commodities such as cotton textiles, plastics, silk, rayon, engineering goods, tobacco, leather, etc Provision has also been made for giving a drawback of import duty on raw materials and components, utilised in the manufacture of several articles which are exposed and a refund of **excise duties on export commodities.** To ensure quality control, compulsory grading before export has been introduced in respect of certain agricultural commodities such as tobacco, raw wool, sandalwood oil. **Special rail and shipping facilities** are also provided for the movement of export commodities. In order to offer facilities for insuring risks, not normally covered by commercial insurance companies, a State-owned **Export Risks Insurance Corporation** (authorised capital of Rs. 5 crores) was set up in 1957.

To co-ordinate all work relating to the development of India's foreign trade, particularly promotion of exports, a **Foreign Trade Board and a Directorate of Export Promotion** were also created in 1957. There is also the **Directorate of Exhibitions,** which looks after visual commercial publicity for Indian goods. Several **delegations** have recently been sponsored by some of the Export Promotion Councils. Besides, industrial-cum-commercial goodwill missions have been sent to various countries to explore possibilities of extending markets for Indian goods.

*Since 1959-60, there has been an intensification of the pro-

motional efforts in regard to exports. These efforts may be grouped into: (i) incentive schemes which provide for import of raw materials, machinery and capital equipment and accessories against exports; (ii) fiscal reliefs in the form of refund of taxes paid on materials used in the manufacture of goods for exports; (iii) relaxation of controls on a number of export commodities; and (iv) conclusion of trade agreements for stepping up exports.

The trade policy during 1961-62 became synonymous with export promotion. With a view to organising export trade on sound lines, a system of enrolment of exporters was introduced. Among specific measures may be mentioned removal of export restrictions on a number of commodities, linking of imports of raw materials and components to export performance and introduction of special export schemes for certain commodities. Fiscal incentives were further extended. Significant measures were taken to stabilise the prices of some export commodities. The activities of Exports Risk Insurance Corporation were expanded. The State Trading Corporation continued its efforts towards expansion and diversification of exports

For 1962-63, the Department of International Trade has prepared a comprehensive export plan specifying individual targets for the various export industries. Special efforts are to be made to retrieve lost ground in Australia and Iran. New markets are to be explored in North America, Middle East and Latin America. The Board of Trade has urged the export industries to formulate cost reduction programme to be pursued systematically during the next few years Trade policy during 1962-63 continued to be directed towards stimulating and expanding exports. Various export promotion measures devised in earlier years were either modified or their scope expanded so as to bring within their purview a large number of export commodities.

Thirdly, the policy of concluding **bilateral trade agreements** with various countries has been continued, of course with a changed emphasis. These agreements are generally directed at promoting diversification of export and at obtaining required imports without causing strain on foreign exchange reserves. When revising existing agreements, an opportunity is taken to omit items in which the country has reached self-sufficiency, and to include in export commodities items in which an export surplus has since emerged. The agreements, extensions and modifications were aimed at correcting the imbalance in India's bilateral trade in addition to opening up new markets for her exports.

Mention may also be made of the **entry of the State in foreign trade** with the establishment in May 1956 of the **State Trading Corporation,** an entirely State-owned organisation (authorised capital Rs. 1 crore). Its aim is to stimulate trade, mainly exports and also imports, by filling up the many gaps in India's foreign trade structure. India's trade with communist countries had been rendered difficult because of the fact that

while foreign trade in such countries was a State monopoly in India it was undertaken by private exporters and importers. Very little trade was, therefore, done with these countries and individual Indian traders were at a disadvantage in such trade. The State Trading Corporation seeks to remove this handicap. It enters into deals with the controlled economies and thus tries to secure for them such items as steel, cement and industrial equipment and in return offers Indian goods so that the country's foreign exchange reserves are not strained. The S.T.C. has been endeavouring to diversify India's trade and find new markets for traditional and non-traditional export items of India. It has arranged a number of link and barter deals. The Corporation has also launched price support schemes for certain commodities in order to stabilise a certain operational export price.

The trade policy during 1963-64 continued to be oriented towards exports and defence, with added emphasis on (a) better co-ordination between export and import policy, (b) greater vigilance and tighter control over export promotion schemes and (c) more vigorous drive to boost exports.

In conclusion it may be stated that while in relation to the country's industrial development the commercial policy being followed is quite satisfactory, yet in respect of its balance of payments it has not been successful in bringing about an equilibrium. This is so not because the elements of this policy are at fault, but a strain on the country's balance of payments is inherent in an economy aiming at accelerated economic development.

Emerging Pattern of India's Foreign Trade

Economic development of a country is bound to affect the character of its foreign trade. A developing economy makes a call both on its exports and imports of a type as to bring about a material change both as regards their quality and direction. India has by now gone through a development programme extending over a period of nearly 13 years. The First Plan was only preparatory and we have covered more than half the period of the Third Plan. All the same we can notice certain trends in our foreign trade and visualise its emerging pattern.

In the first place, both imports and exports must increase a little more rapidly. As industrialisation gathers mementum our requirements of equipment, raw materials, and components must increase in spite of our efforts at import substitution. We shall need more and more of these 'development and maintenance imports'.

Secondly, arising from increasing imports, exports must also keep mounting up. This is so because ultimately import requirements have to be met by exports. Large imports must mean large exports. We may therefore expect not only to increase somewhat our traditional exports but to develop, in course of time, new exports. It may be hoped that we shall nearly double our exports in the next decade. Our export earnings have actually started

looking up during the last five years. It is significant that most of the commodities have accounted for improvement in spite of general downward trend in commodity prices. It is also significant that our export earnings have increased in all regions of the world. These two trends give ground for optimism and we may hope that our export promotion efforts will bear ample fruit.

Thirdly, we cannot expect any large or spectacular expansion in our traditional exports, e.g., tea, jute manufactures and cotton textiles. The bulk of India's exports are of traditional nature at present. That is why we are finding difficult to increase them. This difficulty arises in two ways: (a) increasing competition from other producing countries, and (b) the limited possibilities of growth of the world markets for these commodities. Tea is facing competition from East Africa and Pakistan, jute manufactures from Pakistan and recently Thailand and cotton textiles from Japan, Pakistan and Hong Kong. Any big increase in their demand is not likely. Hence we can expect only a modest increase in their export earnings in the next five years, say Rs. 40—50 crores in the case of jute manufactures and tea.

Fourthly, of the traditional exports sugar, oils and oilcakes and tobacco hold out a promise. It should be possible to build up an average export potential of a million tons 5 years hence. Growth of sugar industry in the South and Maharashtra and improvement in U.P and Bihar will help it. In the case of oils and oilcakes, installation of cotton seed crushing plants and rice bran oil extraction plants should be quite helpful. An increase of export earnings of Rs. 30—40 crores in case of sugar and Rs. 80—100 crores in case of oilcakes may not be ruled out. Both intensive cultivation of lower and medium grades of tobacco and improved curing will expand European markets for our tobacco.

Fifthly, fish and sea-foods have a great scope. Fish exports can be easily stepped up to three times their present value, i.e., by about Rs. 20 crores if we organise fishing and freezing scientifically.

Sixthly, we can also build up export of fruits and vegetables. Plantation cultivation on scientific basis and orchard farming will have to be undertaken on a large scale; grading will have to be done more carefully and transportation will have to be considerably improved to ensure durability. Export of off-season vegetables to Europe has good prospects.

Seventhly, iron ore export has a great potential for expansion. Already these exports have gone up approximately to Rs. 40 crores and an addition of Rs. 60 crores in the next five years is quite a possibility. But we must reduce cost, improve quality and make modern and adequate transport arrangements including handling and shipping facilities.

Eighthly, the major contribution to our export earnings must in the future come from our new exports, viz., iron and steel, castings, structurals, light engineering goods, chemicals, paints and

varnishes, manufacture of metals, machinery and transport equipment, garments, hosiery and made-up fabrics. They must rise to something like Rs. 200—300 crores if our economic development is to be a reality. For the present most of them are being absorbed internally. But we have a substantial capacity to export in a number of fields in the engineering and chemical industries. But we must build up a reputation for quality and servicing facilities. We must strain every nerve to build up an export surplus in these fields because our economic future rests on this. We hope that some developed countries will not only remove tariff barriers to our exports but will also actively encourage them because our production capacity can be used complementarily with industrial production in developed countries. For instance they can use our castings and forgings in their machine-making industry.

Finally, we expect to cast our export net a little more widely. At present we mostly rely on markets in U.K., Germany, Japan and U.S.A. Any untoward event in any of these countries must adversely affect our exports. We must not place all our eggs in a few baskets. On the other hand, through sales promotion, vigorous export drive, market surveys, etc., we must explore and nurture new markets. Besides our natural markets in Africa, Middle East and South East Asia, the Eastern European countries offer good scope both for traditional and new exports.

India and E.C.M.

There are few events in the world of commerce which have stirred up Indian feelings as Britain's expected entry into the European Common Market. As an economic counterpart of N.A.T.O., the countries of Western Europe are forming European Common Market to give one another a favoured treatment and preserve the European market for the goods of the European countries. Great Britain does not want to be left alone. She feels that if she is isolated from the rest of the West European countries, her trade is bound to be adversely affected. In order to safeguard her interests, she is prepared to throw overboard the interests of the Commonwealth countries, especially those with underdeveloped or developing economies, particularly India and Pakistan. This is applying by England of reverse gear to Imperial Preference. At one time England thought that her economic interests would be better promoted if she came closer to Empire (now Commonwealth) countries and for that purpose built up a system of Imperial Preference. Now she thinks that her interests would be best served if she came closer to the European countries. The E.C.M. is thus an antithesis of Imperial Preference. Indian opinion has been very vocal in pointing out that Britain's entry into the European Common Market will adversely affect her (India's) terms of trade, hit exports, add to her balance of payments difficulties and jeopardise the present (Third) and the future Five-Year Plans. Indian note on Britain's joining the E.C.M. is that of anxiety and regret that Britain is joining it.

The European Common Market (E.C.M.) or the European Economic Community (E.C.C.) was established in 1957 when six countries of Western Europe—France, West Germany, Italy, Belgium, Holland and Luxembourg—agreed to form one common market for their goods. A beginning in this direction had already been made in 1950 when the three countries—Belgium, Netherlands and Luxembourg (popularly known as 'Benelux')—formed a customs union. In 1953, all the six countries mentioned above had signed Coal and Steel Treaty which introduced what is known as 'Schuman Plan' designed to ensure markets in these countries for these commodities at favourable prices. These countries expanded this agreement further to form the E.C.M. The Common Market treaty came about in the wake of economic crisis which overtook Europe in 1957-58. By the treaty of Rome, 1958, the tariff was reduced by 40%. In the first stage which completed in January 1962, the six countries agreed to trade in industrial goods free from quota restrictions and from all tariffs with a common tariff against goods from outside countries. There was a further cut of 10% in tariff in January 1962 and still further 10% in July 1962 with a view to introducing common agricultural prices. This was the second stage of the E.C.M. The object of the formation of the E.C.M. was to encourage free flow of goods across their frontiers as a measure of mutual help There was formed a common market out of the buyers and sellers of the six countries.

The full common market is expected to be established in 1970 when all trade in the participating countries will be free from any barriers of tariffs, quotas and subsidies Already the E.C.M. has become a strong unit. Mr. Paul-Henri Spaak declared in the U.N. in October 1962 that the E.C.M. had become the world's strongest unit and if and when England joined it, it would be equal to U.S.A. and Russia in productive capacity.

The U.K. naturally feared that if the Common Market increased its momentum of trade and production by the reduction of internal tariff by 60% and kept up the external tariff wall, its trade would vitally suffer for its goods would not be able to jump over the high tariff wall whereas within the common market countries goods would merrily move to and fro. In the absence of the stimulus of the Common Market it has been estimated that her imports might increase by 4.5% instead of 33.2% in the next five years. Awakened to this coming danger, the U.K. also decided to join the E.C.M. to obtain the benefit of lower tariff for her goods.

But the U.K.'s difficulty arises from the opposition of the Commonwealth countries who do not want to be jilted away like this. Canada fears that 75% of her annual exports would be adversely affected. New Zealand's 60% exports to U.K. would also suffer and so also Australia's. Great Britain does not want to weaken the Commonwealth and her political links with the Commonwealth countries. She is, therefore, naturally trying to push these junior partners of the Commonwealth into the E.C.M. or at any rate to

secure some advantages for them. The U.S. has entered into a deal with the six common market countries cutting its external tariffs and obtaining some tariff concessions in return.

The U.K. alone absorbs more than 50% of our textiles. Let us now analyse a little fully the implications of Britain's entry into the E.C.M. on India's trade.

During 1959-60, U.K.'s share of our exports was 29% and she still continues to be our biggest customer. More than 60% of our export earnings from tea, leather and tobacco are obtained from U.K. This clearly brings the great importance of the U.K. market for our exports. Any move which hits these exports is bound to hit hard our economy. In textiles, India enjoys 17·5% Commonwealth preference in the U.K. market and if this preference is abolished by U.K.'s entry into E.C.M., India will meet with very severe competition from her powerful rivals, China and Japan. In the case of jute manufactures, her import duties may mean a loss of about Rs. 2 crores in 1965. In 1960, of the total exports of Rs. 70.6 crores, England took jute bags worth Rs. 2 crores and the Common Market Rs. 2.80 crores. Leather is another commodity which earns for us a lot of foreign exchange in the British market. Higher import tariff will inflict some loss here too.

At present almost all the major commodities of interest to India's exports enter the U.K. market duty free on account of the preferential treatment that she enjoys. When the U.K. enters the E.C.M., this preference will disappear with the necessary consequence that our exports will be squeezed out. Incidence of raised tariff on India's exports has been worked out thus[1]: It has been calculated that in the case of tea, the loss will amount to Rs. 2.13 crores in 1965 and Rs. 2.95 crores in 1970. In 1960, England took tea worth Rs. 75 crores in the total export of Rs. 120 crores. England is also a good market for our mattings, carpets and floor coverings and also for castor oil and oilcakes. The total loss in case of tea, cotton piecegoods, jute manufactures, leather (excluding goat skins and sheep skins) and vegetable oil works out at Rs. 7.87 crores in 1965 and Rs. 10 crores in 1970. In all, it is estimated that 10% of our trade may be lost, and we may suffer a loss of 10% in value due to duties, quotas, etc. But in course of time losses may be more than made up by compensations arising from the accelerated economy of the United Kingdom. There need not be much panic or alarm. About the immediate setback, however, there need be no question. On Britain's entry into the E.C.M., India is bound to look for alternative markets mostly in socialist countries. That may make up the loss of 10%.

1. *Quarterly Economic Report* of the Indian Institute of Public Opinion, July 1961, p. 26.

CHAPTER XXVI

Indian Fiscal Policy

As a result of war and post-war economic changes, world fiscal policy as a whole has been twisted from its moorings. What policy should India pursue is not a straight or simple problem. This policy is bound to be flexible and has to be carefully planned. On this policy depends the future of many new industries started during war and post-war years and of many old industries too. Hence a careful study of the problem is of supreme importance.

The classical writers upheld the theory of free trade. They believed that every country should specialize only in the production of commodities for which it was best fitted and import other goods. England had the good luck to have a long start in the race for industrialization. Free trade suited her best and her economists advocated this doctrine in the belief that what was good for England was equally good for the rest of the world. All parts of British Empire, including India, had to follow in her wake. India's fiscal policy was thus largely governed by British interests.

Up to 1923, India followed a policy of cent per cent Free Trade and duties were imposed on incoming goods for revenue purposes only. Even these resulted in a great outcry from cotton manufacturers in Lancashire and in some cases countervailing excise duties (e.g., cotton excise duty) on Indian products were imposed. The war of 1914-18 compelled the Government to raise the tariff. They found it impossible to lower it after the war was overdue to their need for more money. These revenue duties happened to give some protection to a few industries and "from 1919 onwards Government efforts were constantly aimed at wriggling out of the situation that had arisen".[1]

1. B. P. Adarkar—*The Indian Fiscal Policy*, p. 421.

Policy of Protection

Arguments for Protection

However, India chose to tread the path of protection. It is worthwhile considering its pros and cons. No country has industrialised herself without the help of protection. England, Germany, U.S.A., Japan—every one of them had recourse to it to develop their industries. Some had ample raw materials, others imported them; but each one of them needed the shelter of protective duties to establish large-scale industry. There is a common sentiment in favour of protection in India. The main arguments are given below:—

(i) **The Infant Industry Argument.** Time is required for the development of various elements conducive to the growth of industry, i.e., for the training of labour, for mobilization of capital, for giving experience to the entrepreneurs, and for learning the necessary technique. During the time an industry is acquiring these essentials it must be sheltered; otherwise it will be blasted by foreign competition. A child requires to learn walking. He must grow up before he can compete with a grown-up man. The force of this argument has been recognized by economists like Marshall and Pigou. Some Indian industries, which have a potentially bright future, are undoubtedly in a state of infancy. To protect them from foreign competition is absolutely essential, otherwise they will have little chance to grow or survive. The late Lala Harkishan Lal speaking about such industries to the Fiscal Commission (1921-22) said, "Nurse the baby, protect the child and free the adult". This is a maxim the validity of which cannot be questioned.

(ii) **Argument for Diversification of Industry.** For balanced development of the character of a nation, diversity of employment is essential, for a person's occupation has an intimate bearing on his personality. No nation likes to be a nation of shopkeepers and clerks only. The quality of employment matters as much as its quantity. It is, therefore, necessary to develop some industries even though conditions are congenial for their natural growth. Only protection can enable such industries to develop. We have as yet developed only a few major industries. To develop others in order to secure diversity, protection is necessary.

(iii) **For Defence.** Adam Smith said, "Defence is better than opulence." Dependence on foreign countries for essential commodities proves dangerous in time of war. This argument has a special force in case of 'key' or basic industries or food. In the First World War, India did not play the part she could have played if her industries had already been developed. The need is all the more urgent today, when India is free but has not aligned herself with any one of the two power blocs into which the world is split up. She must develop her defence industries not only to preserve its own integrity and sovereignty but also to work for the maintenance of peace in the world.

(iv) **For Sufficiency.** If a country desires to be economically independent, it must develop various types of industries with the aid of protective duties. But isolation is neither feasible nor desirable. In view of the great development in the means of transport and communication in the world it is impossible to attain self-sufficiency. If attempted, it will only divert the economic resources of the country into less remunerative channels. If, however, circumstances necessitate such a policy, India can be within a measurable distance of realising this aim, much faster than countries like U.K. and Japan, which have to import some essential raw materials and food.

(v) **For Key Industries.** The application of protection for the development of basic or key industries is urgently called for. No effort should be spared to establish them even if some essential raw materials have to be imported. On the development of 'key' industries depends the establishment of other industries in the country. Without them we shall have to depend on foreign countries for machinery and equipment, and in an emergency, the whole fabric of our economy will fall to the ground like a house of cards. Such key industries include heavy chemicals, electrical apparatus machinery and engines of all kinds.

(vi) **Against Dumping.** If another country dumps goods in our markets with a view to killing some of our industries, protection will become necessary in sheer self-defence. It is possible that the motive of the foreign country is to capture our markets by undercutting prices now and making up the loss by raising prices later, when the home industry has been destroyed. No country can permit this, for this will spread unemployment and disrupt the economy of the country. India had to give protection against Japanese dumping.

(vii) **Against Bounty-fed Goods.** Home industry must be protected against competition from goods supported by bounties in the foreign country. Such bounties give them an unfair advantage and Government must checkmate it by a protective duty. Indian sugar industry was killed by bounty-fed sugar from Europe. Later, protection helped India to re-establish it.

(viii) **Against goods coming from countries with depreciated currencies.** Depreciation of the yen in the thirties neutralized to some extent the protection granted to our cotton textile industry and the measure of protection had to be increased. A country with a depreciated currency is able to sell her goods cheap. The purchasing country has to pay less for a unit of the depreciated currency of the exporting country and naturally buys more. It then becomes necessary to neutralise this undue advantage by granting protection.

(ix) **For Revenue.** Sometimes protective duties are advocated on the ground that they will bring additional revenue into the State coffers. The argument is not logical since there is inherent antagonism between revenue and protection. If an industry has

been given **effective** protection, similar foreign goods will have no chance to sell. They will not be imported and there will be no revenue. **If, therefore, a country wants revenue, she cannot get it through heavy protective duties.** She can secure revenue only if foreign goods are allowed to come in and moderate duties are imposed on them. That means that home goods will have to face foreign competition. Either you can give protection or get revenue. Protection through revenue duties is not a sound policy, for it will mean uncertainty for the home industry.

(x) **For Increasing Employment.** Another ground on which protection is urged is that the development of industries will, in the long run, create employment in the country. As pure theory, this argument is unsound. As exports pay for imports, the country will be able to export less if it imports less. Thus the expansion of her protected industries will be counter-balanced by contraction of export industries. Thus total volume of employment may not be increased by protection. But in the case of India, the argument has some validity, for our export industries are not commensurate with the size of India. Our raw materials are immense. If by means of protection we are able to eliminate foreign consumer goods from our markets, a vast field will open out for the expansion of our industries and the volume of employment will increase. Our economy is at present unbalanced. To restore a proper balance between agriculture and industry is our prime need. A policy of effective protection will be eminently useful.

(xi) **Popularity of Protection.** Indian sentiment is strongly protectionist. The remarkable progress of industries in U.S.A., Germany and Japan under protection, a recent swing round to this policy in England and the ruin of Indian industries under the policy of free trade have all made educated Indians ardently desire protection for developing home industries. A vigorous protective policy, if pursued, will have a strong popular support. As Adarkar says, "It is beyond doubt true that India fulfils all the requirements of what Pigou calls a backward agricultural country wishful to develop manufactures."

Dangers of Protection

But protection is not a painless remedy. It involves sacrifice which must be appreciated and not minimized. In the first place, **imposition of protection duties raises the prices of protected articles.** The agriculturist who has no surplus to sell and the worker whose wages lag behind the increased cost of living, suffer. Mainly, however, it is the middle class people who have to bear the brunt. But this class is patriotic enough to bear it in the hope that one day India will be a powerful industrial nation.

Secondly, **whereas the public loses, the manufacturers gain.** Protection accentuates the inequalities of wealth distribution by adding to the wealth of the already rich. The Government of India have steadily kept in view the interests of the poor consumer, and it is not correct to say that the burden of protection is borne en-

tirely by the masses. With the exception of matches and salt, the articles turned out by the protected industries, like iron and steel goods, sugar, fine cotton fabrics, cement, paper, etc., are not mainly consumed by the poor. The burden, in this case, is largely borne by the middle classes and they do not mind it so much because they understand where the good of the country lies.

Thirdly, **the industries of the unprotected category will be hit,** because they will have to pay higher prices for some materials and pay higher wages without any compensatory advantage. Cotton handloom industry has suffered from protection granted to the mill industry. This is why some allied industries have to be given a corresponding measure of protection. Special reliefs, like subsidies, are needed to alleviate suffering.

Fourthly, **there is a danger that vested interests will be created by protection.** Industries that once secure protection will be reluctant to part with it. Thus the 'infants' may remain 'infants' and refuse to admit that they have grown up. Protected industries get easy profits and do not try to rationalize their methods of production. But this danger can be obviated by withdrawing protection when the industry does not benefit by it any more. Indian sugar industry illustrates this point.

Again, so long as the Government has the **power of taxation,** such vested interests can always be curbed. Are these vested interests absent in countries which have no protection? Why hesitate in doing real good for fear of doubtful harm?

Fifthly, **there is the danger of political corruption.** Powerful corporations in the U.S.A. set aside huge sums to elect or influence legislators. Once, therefore, protection has been granted, it may not be easy to withdraw. But the Fiscal Commission did not foresee this danger in India, as Indian legislatures were composed of too many differing elements to allow this evil to prevail.

Sixthly, **protection is regarded as 'mother' of Trusts.** It has been seen in Germany and U.S.A. that once foreign competition has been eliminated, the home manufacturers form combinations in order to reap monopoly benefits. Although one or two mergers like the Sugar Syndicate and the Associated Cement Company have been established in India, yet the combination movement has not made much headway here. Further, combinations are no longer regarded as inimical to public interest and the movement has been consciously fostered in some countries.

Seventhly, it is pointed out that if effective protection is given, revenues start falling. Ultimately, however, Government can more than recoup its losses through excise duties and raising income-tax revenue. Besides, the enhanced tempo of employment in the country makes up the loss to some extent.

On the whole, therefore, we find that a policy of protection is necessary in India. Its dangers have been exaggerated and costs magnified. The evils of protection could be minimised by avoiding an over-dose of protection, by not granting it for an indefinite

period and by carefully selecting the industries to be protected. It should be noted, however, that discussion of a policy of pure protection in India today is more or less academic. India is **now** free and can chalk out a policy to suit her needs, which **is also in** consonance with her international commitments. She is **in a** position to take steps other than protection, namely **bilateral pacts,** the creation of a State Trading Corporation, and credit **guarantees** which are equally effective and less obnoxious to foreign opinion.

Discriminating Protection

Let us first consider the circumstances that led to the adoption of the policy of protection in India. During the War of 1914-18, the Government realized that unless industries were developed, India was more a source of liability than of help to the British Empire. Hence they decided to establish some industries. During the war, the British Parliament also committed itself to the political advancement of India which was impossible without some fiscal freedom. Hence the Fiscal Autonomy Convention. According to this Convention, the Secretary of State would, as far as possible, avoid interference when the Government of India and its legislature were in agreement and his intervention, when it took place, was to be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government was a party.

The Convention was hedged round with such conditions as rendered it of little practical value. But it was felt that India must take steps to shape her own fiscal policy. Accordingly, the Indian Fiscal Commission was appointed in 1921 to recommend a suitable fiscal policy for the country. The Commission in their report recommended **Discriminating Protection.** According to this policy protection was not to be accorded indiscriminately to every industry. But the case of an industry claiming protection was to be examined and protection granted only if it satisfied certain conditions. The conditions laid down by the Commission are popularly known as the **"Triple Formula"**. Those three conditions were as follows:

(i) The industry to be protected **must possess necessary natural advantages,** such as plenty of raw materials, cheap power, sufficient labour and a large home market.

(ii) It must be **one which, without the help of protection, was either not likely to develop at all or not develop rapidly enough** to serve the interest of the country.

(iii) It **must be one which eventually would be able to stand on its own legs and face world competition** without protection.

In addition to the above, the Commission laid down a few more conditions of lesser importance: (a) An industry **which** could **produce on a large scale with increasing returns** was to be considered as more suitable for protection. (b) An industry **which was expected to meet the entire needs of the country in course of**

time, was recommended a preferential consideration. (c) An industry essential for national defence and for key industries was recommended protection even if it did not fulfil the above conditions. (d) Special measures of protection were recommended against dumped goods or if the goods came from countries with a devalued depreciated currency and thus gained an unfair advantage over Indian manufactures. (e) Similar steps were recommended against bounty fed imports.

The Fiscal Commission recommended the appointment of an ad hoc Tariff Board to adjudge the claim of an industry for protection and to see whether the conditions laid in the triple formula were satisfied.

The policy of discriminating protection recommended by the Fiscal Commission was accepted by the Government and several Indian industries were accorded protection one after the other. Indian iron and steel industry was granted protection in 1924 which was renewed from time to time till 1947 when the industry did not press for continuance of protection. Protection in this case has been fully justified. The industry made rapid progress and turned out to be the 'prizeboy' of the donors of protection. The cotton textile industry got protection in 1927, the measure of which was not found adequate. It also gave some preference to the British industry. Though belated and only an anti-dumping measure, protection did help the industry in its difficulties. Protection granted to the sugar industry led to its phenomenal development. Between 1932 and 1939 the number of factories rose from 32 to 139 and imports declined from 53 lakh tons to 32,000 tons. Later, it was found that the industry no longer deserved protection and it was withdrawn. The paper industry was given protection in 1924 and it was continued till 1947. Protection helped the industry to make considerable progress. Protection helped the match industry too. But a disconcerting feature is that a foreign (Swedish) concern took advantage of protection. Jumping as it were over the tariff wall, it started a number of factories in India, almost killing the Indian concerns. In this case protection has not really helped the genuine Indian industry. Salt industry and several other minor industries received the benefit of protection.

But there were other industries which were denied protection. Heavy Chemical Industry was given protection only for 18 months and it was withdrawn without assigning any cogent reasons. It is a key industry and absence of protection was really regretted. The Indian oil industry was facing a severe competition from Standard Oil Company but protection was refused because price-war was not detrimental to consumers. The coal industry was facing disaster on account of competition from South African coal but the Tariff Board considered that the difficulties of the industry were due to over-development. They refused to recommend protective duty on the ground that it would provoke retaliation. In the case of cement industry, the Tariff Board thought the difficul-

ties of the industry were due to internecine conflict and protection could not help it. The industry, however, satisfied all the conditions for the grant of protection. The glass industry was refused protection because one component soda ash in sufficient quantity was not internally available. This was too rigid an application of the triple formula.

It has, however, to be admitted that in spite of the fact that protection was unjustifiably denied to some important industries, it did help several major industries of India.

Critique of Discriminating Protection

There is no denying the fact that the policy of discriminating protection has enabled India to develop some industries and save others from ruin. Iron and steel, cotton, sugar and paper industries are deeply indebted to it.

But this discriminating policy has met with strong criticism.[1] Some say, "it was all discrimination and no protection". According to Mr. B. P. Adarkar, "It has vouchsafed nothing better than a perfunctory assistance, indifferently and grudgingly rendered to industries whose subsequent development has been left to take its own course". The policy has not fulfilled our expectation. What **this protection** has achieved in India can stand no comparison with what protection has done in Russia and Japan in a short period. The reason for lack of comparative success in development of industries in India is that the foreign Government was more interested in selling British goods in India rather than in producing goods in factories in this country. This is why we are still an agricultural country still far from our ideal of an industrialized India.

The conditions laid down for the granting of protection were too severe. Also, as already pointed out, the **first two conditions are incompatible.** If an industry enjoys all natural advantages, fulfils the first condition, it will not need protection, hence the second condition will not be fufilled. **The third condition is merely a matter of opinion.** Further, why should an industry be denied protection if it has no home market but a large export market? **An industry can also thrive even if it has to import some raw materials.** But such industries could not get protection under this scheme. Not many industries in foreign countries can satisfy such conditions. Moreover, this policy could take into consideration only those industries which already existed. It could not build new ones, howsoever favourable the circumstances.

The constitution, composition, functions and the procedure of the Tariff Board were not such as to render effective and timely aid to industries. The members were selected by the Government which also fixed the terms of reference. Besides, they would like to be appointed again and again. People, who bask in official sun-

1. *Vide* Vakil and Munshi—*Industrial Policy* with special reference to Tariff; D. K. Malhotra—*Review of Indian Fiscal Policy;* B. P. Adarkar—*Indian Fiscal Policy.*

shine cannot be expected to take an independent attitude. Even if they were the right people, their hands were tied by the terms of reference. Besides, for every industry, a new Board was appointed. **The members thus lacked continuity of experience.** Their outlook was narrow and experience gained in the course of an enquiry was altogether lost.

It is complained that the Board usually adopted too judicial an attitude and in their desire to keep the scales even, they failed to show sympathy to the needs of Indian industry. Foreign interests must have influenced their decision when Imperial Preference was grafted on protection in 1927 in the case of steel industry and in 1930 in the case of cotton textile industry. Besides, the procedure was too dilatory. Sometimes more than a year elapsed before the report was published. Such a slow-moving machinery could not be expected to meet the situation on the commercial front which changed rapidly. The industry might be dying but no timely relief could be given. It was often a case of Nero fiddling when Rome was burning. In several cases, the recommendations of the Tariff Board were turned down by the Government. Periodical inquiries imported an element of uncertainty. It does not speak well of this policy when we remember that cement, glass, coal, oil, woollen and printers' ink industries were denied protection. There were several industries which deserved help, but their cases were not even considered, e.g., aircraft, automobile, ship-building, tanning, electrical goods, pharmaceuticals, handloom weaving, soap, etc.

In other countries, like the U.S.A. and Australia, there are permanent tariff commissions whose duty it is to keep a watch over the industrial field and take action if anything goes wrong. What was wanted in India was a similar body, a body of experts enjoying permanent tenure with powers to pass final judgments. Only then they could have rendered quick aid to needy and deserving industries.

Achievements of Protection

We may, however, mention some achievements of this policy.

1. As a result of protection **many industries have been developed, viz., iron and steel, cotton textiles, sugar, paper and paper pulp, matches, magnesium chloride.** Among these, sugar industry practically did not exist before protection was granted to it in 1932. But in five years' time the industry developed so rapidly that the country became self-sufficient in sugar. Considerable progress was shown by the other protected industries also under the stimulus of protection. It has been calculated that during the 17 years, 1922-39 (from the year in which the policy was adopted to the year when World War II broke out) the production of steel ingots expanded eight-fold, that of cotton piece-goods by nearly two and a half times, of matches and paper by 38% and 80% respectively and cane-sugar recorded a tremendous advance from 24,000 tons in 1922 to 9,31,000 tons in 1938.

2. It was through this policy that even **during the period of the Great Depression** when other industries were passing through a depression, the **protected industries actually expanded.**

3. The benefits of the policy were not confined to the above-mentioned industries only. **Many subsidiary and allied industries,** particularly those connected with iron and steel and cotton textiles, also grew up.

4. The policy has had **favourable reactions on agriculture** as well. The expansion of the cotton textile industry has been of great advantage to the cultivators of cotton and has stimulated the production of high-priced, medium and long-staple cotton. The gains to the cultivators in the case of sugar-cane have been even more substantial. Area under sugar-cane has considerably increased, the proportion under improved varieties has greatly gone up and the yield per acre has also improved.

In the end no fairer summing up and no better suggestions could be given than in the words of Mr. B. P. Adarkar:—

"First the formula of Discriminating Protection needs overhauling; it should be replaced by a simpler, more sensible and more straightforward formula. The rigid conditions of that formula must be revised. **The condition** regarding raw materials, in particular, must be relaxed. **The third condition** of the formula must be dropped as being of the nature of a forecast rather than a condition precedent. Secondly, the machinery and procedure of the Tariff Board must be drastically revised, and the present system of hurdles and bottlenecks must be abolished facilitating a straight reference to the Board, which should have powers to initiate enquiries itself. The personnel of the Board also must be made more responsible to public and the predominance of the official element reduced. Thirdly, there must be a clear-cut division between (a) Development Protection, (b) Safeguarding, and (c) the Revenue Tariff; the purpose and function of each being clearly defined. Fourthly, the revenue tariff, in so far as it affects the development of industries, must be subject to the review of the Tariff Board. Fifthly, from time to time, the Government must encourage the development of essential new industries by means of an "experimental tariff". If in spite of the tariff, the requisite industries do not come into existence, it should be open to the Government to withdraw it."

It is gratifying to note that most of these reforms have been affected as recommended by the Second Fiscal Commission (1949-50).

Present Fiscal Policy

The New Concept of Protection. There are no two opinions about the employment of a protectionist policy to develop our industries in the future. The Fiscal Commission in, 1949-50, however, laid down certain principles according to which protection should be granted. These principles are different from that

of discriminating protection of 1921. Protection is now justified if it can remove unemployment or under-employment in the country, or ensure that the natural resources are fully utilised and that there should be a progressive increase in the standards of productivity. It is recognised that special measures should be adopted for the development of agriculture and small-scale industries on co-operative lines and that at the same time, there should be large-scale industrialisation with a diversified economy. Accordingly, the Fiscal Commission recommended:

1. **That defence and other strategic industries** should be protected, whatever the cost may be, on national considerations;

2. **That as regards basic or key industries**, the tariff authority will decide the form of protection and the quantum thereof and will lay down terms and conditions of protection, as well as review them from time to time;

3. **That as regards other industries**, the criteria to be applied for granting protection should be as follows:—

"Having regard to the economic advantages enjoyed by the industry or available to it and its actual or probable cost of production, it is likely within a reasonable time to develop sufficiently to be able to carry on successfully without protection or assistance and/or it is an industry to which it is desirable in the national interest to grant protection or assistance and having regard to the direct and indirect advantages, the probable cost of such protection or assistance to the community is not excessive."

The Fiscal Commission further recommended that:

(a) Local availability of raw materials should not be a condition for the grant of protection, if the industry possesses other economic advantages, such as internal market, etc.

(b) An industry should not be expected to satisfy the needs of the entire domestic market for grant of protection.

(c) A potential export market should be taken into account to determine the protection for an industry.

(d) Industries using the products of protected industries will require compensatory production; it will depend upon the type of raw materials used by it, the nature of additional burden on the consumers, the nature of the demand for the finished products, etc.

(e) As regards new industries the need for assurance of protection is particularly strong when the initial capital outlay is very heavy or when a great deal of specialised personnel is needed.

(f) In the national interests, agricultural products may be protected but the number of commodities should be as

small as possible and protection limited to short period, never more than five years at a time; while a programme of agricultural improvement must accompany the scheme of protection and annual report should be made to the Government.

(g) On broad grounds a levy of excise duties on protected industries is not advisable and should be resorted to only when there are urgent budgetary requirements.

The Fiscal Commission recommended that a Development Fund should be created by setting aside every year a portion of the revenue collection from protective tariffs. With such a fund subsidies can also be given to needy industries. Such subsidies should be preferable to tariff protection—(a) where domestic production meets only a small fraction of domestic demand; (b) where the commodities are essential raw materials; and (c) where the manufacture of certain commodities needs protection, but it is difficult to distinguish grades or qualities to be protected.

The Commission recommended that in normal cases quantitative restrictions should be used sparingly and only against abnormal imports It held that it was difficult to decide on the stage of development of an industry at which a tariff quota scheme would be suitable. As regards the quantum of protection, it was suggested that the tariff authorities should lay down uniform and standardised rules. As a general rule, industries should be assured of protection for a reasonable long period, so that capital may be attracted to them and a suitable programme of improvement may be drawn up and implemented. The Commission also suggested that the stores purchase policy of the Government should give preference to indigenous articles over foreign articles.

In order to protect consumers' interests the Commission laid down certain obligations on protected industries. These obligations mainly concern price, output, quality of production, adoption of technological improvements, research, training of apprentices and avoidance of anti-social activities. They suggested that these obligations should be treated as directive principles of tariff administration and that the tariff authority should report to Government periodically the manner in which those obligations are being discharged by the protected industries in a way that interests of the community are not being injured.

It is gratifying to note that the protected sector of the economy has been making a valuable contribution to the industrial development of the economy. Among protected industries which have exceeded the planned targets are plywood, tea-chests, grinding wheels, electric motors, power and distribution, transformers and bicycles. In comparison with the general indices for industrial production, certain protected industries have

shown noteworthy increases, e.g., caustic soda, aluminium and conductors. Sewing machines, recently deprotected, is an instance of an industry which has definitely developed vigorously only due to protection. As compared with the industrial sector in general, the price trends have been better held in protected industries, e.g., transformers and bicycles. The quality of production turned out by protected industries has also been found generally to be improving.

On the whole, however, there is no doubt that fiscal policy is now being used effectively than hitherto as an instrument of industrial development. We can now reasonably hope that given other favourable circumstances, this new policy will produce the desired results.

To sum up: In the past our fiscal policy was largely governed by British interests and protection was adopted only in rare cases to silence criticism. The Tariff Board was a powerless body whose recommendations were often turned down.

All this is past history. Our fiscal policy now has a purpose behind our actions. The suggestions made by the Second Fiscal Commission were accepted by the Government almost in toto. The present Tariff Commission is a sound body whose recommendations are almost always adopted. We are now an independent country. We have adopted industrialisation as our objective. **We frame our own trade policies,** paying due deference to our international commitments. Our present fiscal policy is thus governed only by our own industrial needs and by our relationships with the I.M.F. and the GATT.

Fiscal Policy as Instrument of Planning

As an instrument of planning, the role of fiscal policy is similar to credit policy Both have far-reaching effects on trade and industry and through them on employment. The fiscal policy has a direct effect on **inflation** or **deflation.** Now that the expenditure by the Government is increasing, our fiscal policy must be such as keeps down inflation. Through fear of inflation, it has not been possible to provide finances in India for many projects which had to be taken up for execution from the long-term point of view. It has also to be seen that fiscal policy is not of the type which tends to check savings and investments in the private sector. The idea is not to divert investment from the private to public sector but of increasing the total. Fiscal policy can be an important device to bring about greater investment. Fiscal policy can also aim at reduction in inequality of income and wealth. Higher rates of direct taxation will impinge more on the savings of the higher classes than on their consumption. Hence indirect taxation is to be utilised, but direct taxation must not be ignored altogether. Death duties have proved very useful in the direction in other countries. For this reason they have been introduced in India.

There are three main sources of savings in any country, personal savings of individuals, saving by corporations and public savings (i.e., surpluses in the public sector). Corporate savings are very large in countries like the U.S.A. but they have given monopoly power to these corporations. India has to avoid this. Therefore, more stress should be laid on co-operative rather than on corporative savings. Individual savings can be very vast if there is a surplus above consumption but that is not the case in India. The small savings campaign in India has not produced any spectacular results because the margin of saving in India today is greater in the village than in the town. Finally, the State must increase its resources through taxation, through loans and through State enterprises. All these various resources have to be woven into a suitable pattern of fiscal policy in order to provide funds for the Five-Year Plans. As far as possible, dependence on foreign finances should be the minimum. Funds have to be found from increased taxation, enhanced railway rates, deficit financing, external aid, etc. This involves the use of a very judicious fiscal policy.

In our import policy the quotas against each item are determined not merely on the basis of the need of the commodity for internal consumption but also whether the need could be met wholly or partially in the country. As a general rule, wherever India has the capacity of producing an item to meet the entire demand, tariffs have been increased to 66% or even 100%. Where the Indian industry can only meet the demand partially, imports are regulated by quotas. If the industry stands in need of further protection it can always appeal to the Tariff Commission. Under this scheme a number of industries have become stabilised. A typical example is art silk yarn. Another example is the bicycle industry which is producing 10 lakh bicycles in a year today against one lakh in 1951.

The pattern of our export trade has also changed. From being mere sellers of raw materials, we have become sellers of processed goods and manufactured commodities. Of course we have and shall have to face great and still greater competition in these lines from foreign countries, specially U.K. and Japan. We have, therefore, to create organisations which will promote our export trade and devise methods according to the requirements of every commodity. Export Promotion Councils have been set up. Credit guarantees are being put into operation. Bilateral trade agreements have been entered into with a number of countries. In order to trade on better terms with countries whose trade is in the hands of the State, the Government of India has set up a State Trading Corporation. Our trade representatives abroad are doing useful work for industries in India.

This in brief is the role that the fiscal policy plays in economic planning and has to play more vigorously to help successful execution of the development plans in India.

India and International Trade Organisation

After the War of 1914-18, the peace-makers saw no need for economic co-operation on an internal basis. It was expected that nations would return to the gold standard and the "old normal" conditions. It proved a chimera. Luckily, it has at last been realized that the world would slip back into the chaos of competitive control unless nations joined together to stop this tendency. Before the 1939-45 War, national economic systems had sprung up and a policy of protectionism made trading conditions precarious. Now joint action was felt to be an urgent necessity to prevent world trade from being restricted. It was seen that most nations had common fears and desires. Their problems could be solved only by international collaboration. The idea was embodied in the Atlantic Charter in 1941. It found expression in the Mutual Aid Agreements in 1942, and the Bretton Woods Agreements in 1945. It led to a renewal of the Trade Agreements Act in 1946 and Anglo-American Financial Agreement in 1946. It gave birth to the International Trade Organization which held its first meeting at Geneva in 1947 and its second conference at Havana in 1948 India was one of the original signatories.

Briefly speaking, the sub-committees arrived at the following conclusions over the various issues:—

1. **Quantitative Restrictions and Exchange Controls**. "No restriction other than duty, taxes or other charges, shall be imposed by any member-country or on imports from any other member-country or on exports to any other member-country". The following exceptions are, however, permitted:

(i) Traditional prohibitions to effect the equitable distribution of products in short supply, the maintenance of war-time price controls and the orderly liquidation of war surplus.

(ii) Temporary restrictions to relieve shortage of foodstuffs and other essentials products.

(iii) Controls under inter governmental agreements.

(iv) Import controls to safeguard balance of payments

Any member may complain of another member who may be employing restrictions to damage its trade. The I.T.O. will recommend adjustments, which if not complied with, may result in withdrawal of tariff concessions.

2. **Tariffs and Preferences**. Members of the I.T.O. are committed to enter into negotiations for the reduction of tariffs and the elimination of preferences. The general rule requires members to accord to one another most-favoured-nation treatment. Underdeveloped countries like India will not have to grant concession on products of an industry they want to protect.

3. **Employment**. The London Draft provided that each member "shall take action designed to achieve and maintain full

and productive employment and high and stable levels of effective demand within its own jurisdiction through measures compatible with the purposes of the Organisation".

4. **Economic Development.** War-weakened nations were allowed to rehabilitate themselves with the help of controls in trade while economically backward countries were permitted to industrialize by regulating foreign transactions.

5. **Restrictive Business Practices.** The Draft said, "that each member shall take steps to ensure that enterprises do not engage in practices which restrain competitions."

6. **Commodity Agreement.** The circumstances under which Governments may enter into agreements regulating the production, export, import or prices of primary commodities are carefully defined. Such agreements are limited in duration.

Two other important objectives are: (1) the development of the natural resources of the world and protecting them from unnecessary exhaustion, and (2) the expansion of the production of primary commodities in short supply.

To have a common basis of agreement for over 50 countries is not a light task. A formidable hurdle had indeed been crossed. Even a greater achievement is that the I.T.O. is authorized to interpret obligations, issue rulings, hear complaints of non-compliance and to bring pressure to bear on members by restricting advantages gained from the Charter.

The Indian Fiscal Commission examined the Havana Charter and found that the Charter would not impose serious limitations in India's freedom to mould her commercial policy in the interest of her own domestic economy. The Commission recommended that India should ratify the Charter, provided other countries of major economic importance like the U.S.A. and the U.K. ratified it. The Commission hoped that the provisions of the Charter concerning economic development of backward countries would be interpreted liberally.

Pending the establishment of the I.T.O., 23 nations met at Geneva in 1947 and drew up the **General Agreement on Tariffs and Trade** (G.A.T.T.) with a view to reducing tariffs. India signed this agreement. It came into effect on a provisional basis on July 9, 1948. G.A.T.T. has reduced or stabilised a very large number of tariffs. India concluded trade agreements under G.A.T.T. with several countries. The Fiscal Commission analysed the tariff concessions granted and received by India under the General Agreement on Tariffs and Trade (G.A.T.T.) and were of the opinion that it would not be to India's benefit to keep out of the 'G.A.T.T.' till the future of I.T.O. was known. They suggested that in regard to the tariff concessions to be received from other countries, India should concentrate on—

(a) commodities which meet with competition from similar

commodities and possible substitutes from other countries in the world market;

(b) manufactured commodities rather than raw materials.

Secondly, in the matter of granting tariff concessions, India should concentrate on (a) capital goods; (b) other machinery and equipment; and (c) essential raw materials.

The Fiscal Commission also suggested that—

(1) the special requirements of cottage and small-scale industries, which depend on the foreign markets to a large extent, should be borne in mind when India entered into trade negotiations with foreign countries;

(2) a close watch should be kept on the course of trade in the 'G.A.T.T.' items, and half-yearly trade returns published;

(3) before any fresh negotiations were started, the representatives of trade, industry and other interests concerned should be consulted as regards the nature of the concessions that India needed or other countries might demand.

A conference of contracting parties to the 'G.A.T.T.' met at Torquay in France in September 1950. India, along with all other countries, signed the 'Final Act'. Six more countries joined the 'G.A.T.T.' Now the percentage share of the 'G.A.T.T.' countries in the world trade is not less than 85% which is a great achievement and shows the great co-operation the idea of 'fair trade' is receiving from all countries.

The eighth session of the 'G.A.T.T.' was held at Geneva in October 1953, in which the French Government presented new proposals for the reduction of customs tariffs. Already there had been a marked achievement as a result of 3 post-war tariff conferences—Geneva in 1947, Annecy in 1949 and Torquay in 1950-51. In all 58,000 concessions had been negotiated among countries that conducted 4/5ths of the world trade. In place of the bilateral negotiations between countries on a product-to-product basis, aimed at a strict balance of concessions, it was suggested that there should be an obligation on all participating Governments to reduce the protective incidence of their tariffs according to a common standard. Every country was required by this plan to undertake 30% reduction in its tariff in stages of 10% in each of 3 successive years. Economically backward countries were not required to make duty reductions on products included in their development programmes. Fiscal duties for revenue purposes are also allowed to be omitted.

During the year 1955, the Government of India showed special interest in the modification of the G.A.T.T. to facilitate industrialisation of under-developed countries. India was able to secure special facilities like the use of quantitative restriction and relaxation of tariff for this purpose. The G.A.T.T. enjoins elimination of discrimination of unfair practices and of tariff

barriers as far as possible. India had adhered to these principles in its external trade relations.

Thus India has been able to evolve planned trade during the last several years. This was specially so during the Second Five-Year Plan in view of India's urgent need for foreign exchange resources to finance her large-scale imports of capital goods and industrial raw materials.

In March 1955, the members of G.A.T.T. reviewed the Agreement in the light of seven years' experience. The basic objectives of the Agreement were re-affirmed and its provisions adapted to meet the changed world conditions. At the same time the structure of an Organisation for Trade Co-operation was elaborated. The following are some of the important agreed proposals:

(i) The life of the present tariff schedules should be prolonged to December 1957, and may be automatically renewed by a further period of 3 years;

(ii) The contracting parties to the agreement should have facilities to enable them—

(a) to maintain flexibility in their tariff structure to grant protection to established needed industries;

(b) to apply quantitative restrictions on imports to protect their balance of payments.

In its conference held in October 1957, the leader of the Indian delegation was elected as the Chairman. In the ministerial meeting convened by G.A.T.T. in Geneva in October 1958, the Indian Minister of Commerce announced that India would give Japanese exports the full privileges of the G.A.T.T. with immediate effect. The Seventeenth Session of the contracting parties to the G.A.T.T. was held in Geneva in October 1960. Among the major questions examined by the Session were those of regional economic integration, expansion of world trade, import restrictions, government subsidies and the problems of basic products and exports from under-developed areas.

Obviously the world is progressing towards a better understanding and minor economic conflicts are being localised.

CHAPTER XXVII

Problems of Currency and Exchange

Indian Currency System in Outline

(1) The Rupee is the unit of account, but it is not a standard coin. We have no standard money and "there is no definite, objective, norm or measure by which change in values or developments in the national economy can be gauged". The rupee is not a standard coin. It is represented as a fraction of pound-sterling, and the only guarantee of its stability is the obligation of the Reserve Bank to maintain the rupee-sterling rate. But the value of pound-sterling is itself subject to fluctuations. Hence the stability of exchange is really no guarantee of the stability of the Indian currency system.

The rupee had to be emancipated from its dependence on sterling. To some extent this emancipation has taken place on account of our link with the International Monetary Fund. The progressive debasement of the rupee in recent years (reduced first to half fineness and nickel rupee from 1947) has brought it very near to the paper currency, although rupee coins may continue to be used for sentimental reasons. In course of time, as banking habits develop, notes may largely replace metallic currency and the expense of using metallic money and of keeping large metallic reserve may be avoided.

(2) The subsidiary coins are half-rupee, four-anna, two-anna, one-anna, two-pice and one-pice coins. The new coins are **Paise.** Like the rupee they are also token coins having their face value higher than the metallic value. The rupee and half-rupee coins are **unlimited legal tender** and the subsidiary coins are **limited legal tender**. Their value is maintained through the authority of the Government which properly controls their supply.

(3) The Indian paper currency consists of notes of various denominations, viz., one-rupee, two-rupee, five-rupee, ten-rupee, 100-rupee, 1,000-rupee notes, 5,000-rupee notes and 10,000-rupee notes. The one-rupee note is not convertible into rupee coins. The notes are issued on the Proportional Reserve System. Though the notes are unlimited legal tender, they are not convertible into gold or silver but only into legal tender.

(4) The Indian currency system is not capable of automatic expansion or contraction in response to changes in trade or to meet the requirements of growing economy. The rupees once put into circulation seldom return when their need is over, they are hoarded. Again, when new rupees are wanted, they must come from the mint. This puts a severe strain on the country's resources and large purchases of silver for the purpose upset the country's balance of trade. The note-issue also lacks elasticity, as reserve has to be maintained. "Paper money would be unable to render its full service to the country's economy, so long as the reserve provisions are rigid as today, with sterling securities predominating, and so long as a close contact with the active features of the country's economy, particularly in regard to domestic and foreign trade, is not provided".

(5) "There is no co-ordination between the total value of money of all kinds in circulation and the aggregate national economy. There is very little of the so-called 'deposit currency' which every modern commercial country tends to develop more and more. There is no correlation...between the total volume of money in circulation...and the economic needs of the country, its productive capacity or distribution requirements."

The value of the Indian rupee is maintained by the Reserve Bank at 0.186621 grams of gold or 21 cents (U.S.A.). Before the establishment of the I.M.F. India had a Sterling Exchange Standard. The Reserve Bank maintained the exchange value of the rupee in terms of the sterling at the rate of Re. 1=1s. 6d. Now the Reserve Bank is under obligation to maintain the rate in terms of gold. That is why it is called **Gold Parity Standard.** A strict exchange control is in existence.

Indian Paper Currency

Notes were practically unknown in India until the beginning of the 19th century. In 1806, the Bank of Bengal was founded and given the privilege of issuing notes. The privilege was also conferred on the Bank of Bombay (1840) and the Bank of Madras (1843). Although these banks were private institutions, yet the Government had a share in the capital and was represented on the management. A maximum limit of note-issue was fixed for each bank, and they had to keep a reserve of 33-1/3% (later reduced to 25%). These notes were not legal tender and were popular in the presidency towns only.

In 1861, the Government took over the note-issue from the Presidency Bank. The country was divided into circles, and the

notes issued in one circle were legal tender only in that circle. The notes were issued on the currency principle embodied in the Bank Charter Act of 1844 passed in England. The fiduciary portion of the Paper Currency Reserve was fixed at Rs. 4 crores. Over and above this limit, metallic reserve of equal value had to be kept.

The above arrangement was excellent from the point of view of the security of note-issue, but it was neither convenient nor did it provide elasticity in the note-issue. The inconvenience arose from the restricted area within which the notes were legal tender and convertible. This defect was, however, removed when notes of one denomination after another were universalized.

The note-issue was inelastic, because beyond a certain limit cent per cent metallic reserve was necessary. Some elasticity was imparted by raising the fiduciary limit from time to time, until it stood at Rs. 14 crores in 1914 and Rs. 120 crores in 1919. Some elasticity was also given by making the rupee a token coin in 1835 so that less silver was needed for the reserve in the form of new rupees.

The Paper Currency Reserve originally consisted of silver coins and bullion as regards the metallic portion and the Government of India rupee securities as regards the fiduciary portion. Subsequent legislation, however, permitted the holding of gold coin and bullion as well as sterling securities as part of the Indian Paper Currency Reserve.

The main defects of the Indian Paper Currency were: (1) It was not automatic because the fiduciary portion could be increased only by fresh legislation every time. (2) The metallic portion of the reserve was unduly large. (3) A part of the reserve was kept in London instead of in India. (4) There was a divorce between currency and banking, whereas integration is the rule in modern times. (5) In the absence of a central bank, the Government was compelled to keep its funds locked up in "Reserve Treasuries" creating financial stringency in the money market in the busy season. (6) Above all, the currency system was inelastic. In other countries, bank deposits and cheques as well as notes issued against commercial bills lend elasticity to the currency system; also the Government funds placed in the central bank are made available to the trade. But in India banking was comparatively undeveloped, organized bill market was practically non-existent, and the central bank had not yet come into existence.

The Chamberlain Commission, with a view to introducing a measure of elasticity, recommended that the fiduciary portion should be fixed as under:

Notes held in Reserve Treasuries plus 1/3rd of the net circulation, i.e., gross circulation minus notes held in Reserve Treasuries.

The Commission further recommended that the use of notes should be encouraged and facilities for encashment should be extended. The idea of the Commission was to make note-issue both elastic and popular.

The War (1914-18) put a great strain on the Indian paper currency system. There was a rush for conversion of notes. New notes of Re. 1 and Rs. 2½ were issued. Extra legal facilities for encashment of notes were discontinued.

At the end of the War, the Babington Smith Committee examined the Indian currency system. In order to import elasticity and to ensure adequate metallic reserve, the Committee recommended that the metallic portion of the reserve should be at least 40% of the gross circulation, and, over and above the normal fiduciary issue, provision should be made for the issue of additional currency up to Rs. 5 crores in the form of loans to the Presidency Bank against export bills. It also recommended the removal of war-time restrictions on the encashment of notes. The Government passed legislation to give effect to these recommendations.

The Hilton Young Commission of 1926 recommended the establishment of the Reserve Bank to which the sole right of note-issue was transferred. The obligation to convert notes into silver coins was withdrawn. The Paper Currency Reserve and the Gold Standard Reserve were amalgamated and the proportional reserve principle of note-issue was introduced. The Reserve Bank Act was passed in 1934 and the Bank started its operation from 1st April, 1935.

The assets of the Issue Department consisted of gold coin, gold bullion, sterling securities, rupee coins and rupee securities. Of the total assets not less than 40 per cent had to consist of gold coin, gold bullion or sterling securities, provided that the amount of gold coin and gold bullion was not at any time to be less than Rs. 40 crores in value. With the previous sanction of the Central Government, however, the Bank might hold gold coin, gold bullion or sterling securities amounting to less than 40 per cent of the assets for limited periods provided that it is paid a specified tax on the deficiency.

The Reserve Bank of India (Amendment) Act, 1956, changed the proportional reserve system to that of a fixed minimum and prescribed a minimum holding of foreign securities of Rs. 400 crores and of gold coin and bullion of Rs. 115 crores. According to an ordinance issued on October 31, 1957, the statutory minimum reserve was drastically cut down to Rs. 200 crores including Rs. 115 crores worth gold from the present minimum of Rs. 400 crores including Rs. 115 crores in gold.

Under the Reserve Bank Act, the assets of the Issue Department, as we have seen, were kept in the form of—

(i) rupee coin including rupee notes;

(ii) gold coin and bullion;

(iii) rupee securities, including treasury bills; and

(iv) sterling securities.

Expansion of currency could be effected by increasing any of these forms of assets and issuing notes of equal value from the Issue Department. Contraction of currency was similarly effected by withdrawing notes from circulation and reducing any of the assets. "Ordinarily in the case of expansion, the Bank increased the assets of the Issue Department by transferring rupee or sterling securities or both from the Banking to the Issue Department or by creation of ad hoc treasury bills; and in the case of contraction, reduced the assets by transferring securities, rupee or sterling, or both, from the Issue to the Banking Department, or by cancellation of ad hoc treasury bills held in the Issue Department.

An enormous expansion of note circulation took place during the war. These notes were issued against sterling securities accumulated due to circumstances arising out of the war. The total notes in circulation when the war broke out in September 1939, were Rs. 182 crores. On the 3rd of August 1945, the figure stood at Rs. 1,333 crores, an increase of about 951 crores. The increase in sterling securities during the same period was to the value of Rs. 975 crores. In 1963-64, expansion was of Rs. 212 crores raising the total circulation to Rs. 2,411 crores.

During the Second World War, high denomination notes were demonetised to catch black marketeers and check hoarding. In 1953-54, it was decided to issue notes of the denominations of Rs. 1,000, Rs. 5,000, and Rs. 10,000. This has been done to remove inconveniences of the commercial community.

Decimalisation of Coinage

Decimal system of coinage has been now introduced in India since April 1, 1957. Under the new system, the Indian rupee continues to be the standard coin. But instead of being divided into 16 annas. 64 pice and 192 pies as before, it has been divided into 100 equal parts called **Paise**, the half-rupee and quarter-rupee being equal to 50 **Paise** and 25 **Paise** respectively. The existing two-annas, one-anna, half-anna and pice coins have no counterparts in the new system. In the beginning, **Naye 10-Paisa, 5-Paisa, 2-Paisa** and **1-Paisa** coins were issued. Subsequently coins of **25 Naye Paise** and **50 Naye Paise** were also issued. The new coins were gradually to replace the coins below quarter rupee. For some time the old coins were to circulate side by side with the new coins and there is a provision for the conversion of the existing coins into new ones. Retention of some old familiar coins and provision for conversion at the intermediate stages has made the transition to the new system easy. It was decided to spread the process of changeover to the decimal coinage to three years.

In accordance with the decision to withdraw old anna-pie coins, the Government issued two notifications (July 1958 and June 1959) demonetising all nickel brass two-anna coins, all half-pice and pice pieces. All nickel brass one-anna and half-anna coins ceased to be legal tender from January 1, 1959, and January 1, 1960, respectively. All cupro-nickel two-anna and half-anna coins ceased to be legal tender from October 1, 1960. With effect from January 1, 1964, all cupro-nickel one-anna, copper double-pice and copper and bronze single-pice coins ceased to be legal tender. These coins, however, were to be accepted at all offices of the Reserve Bank and government treasuries till June 30, 1964.

Decimal system is considered to be essential for making calculation easy and quick. This system has been adopted in 105 out of 140 coin issuing countries, the U.S.A. leading the way in 1786 and 1792, France following in 1799 and 1803. The U.K. is an exception

We shall now discuss some main problems.

Problem of the Ratio

A keen controversy has always centred round the ratio question in India. But since 1939 the controversy has almost completely subsided. As a member of the I.M.F., India has declared her initial ratio as 1s. 6d. Is it a correct decision?

The proof of a correct ratio is that there should be harmony between cost and prices. "The rate of exchange is an index of relationship of price levels, balance of payments, tempo of economic development, etc., subsisting at any time between different countries". Considering all relevant factors, it seems that 1s. 6d. is a fairly correct index of such relationship. It does not seem to be out of harmony with the existing economic conditions in India.

The prices in India are very high and we cannot, therefore, lower the ratio lest prices should rise still higher. Similarly, we must keep to the higher ratio because it cheapens imports and we want to import capital goods and essential consumers' goods.

A change in the ratio is necessary only to rectify mal-adjustments in the economic system or to build up a favourable trade position or to ward off booms and slumps from abroad. There is no serious mal-adjustment at present that we have to correct and for the other two objects monetary co-operation, rather than independent and isolated action, is essential. As a member of the Fund, we are precluded from such unilateral action.

On the whole, therefore, the decision to stick to 1s. 6d. is a wise decision. In case any change is called for, it can easily be effected as the rules of the Fund permit 10—20% variation in the ratio.

Devaluation

In 1949, the rupee had to be devalued. It was necessitated

by the devaluation of sterling. In the post-war years, the balance of payments position of the sterling area, and of the U.K. in particular, vis-a-vis the dollar area was fast deteriorating and the dollar gap assumed dangerous dimensions. From £226 million in 1946, it rose to the huge figure of £1,024 million in 1947. As a result, the Central Reserve of the sterling area was being fast depleted. From £552 million on March 31, 1948, it fell to £471 million on March 31, 1949, and further to £406 million on June 30, 1949.

There were several causes responsible for the dearth of dollars and the ever-widening dollar gap. The sterling area had come increasingly to depend on supplies from America. The high cost of production of British goods impeded exports. Large payments in dollars had also to be made to countries outside the sterling area, e.g., Belgium and Switzerland. The basic explanation of the post-war dollar problem is that the war has destroyed the balance between production in the dollar area and the rest of the world. The result is that the demand of non-dollar countries for dollar goods far exceeds the demand of dollar countries for non-dollar goods.

Before the war, Great Britain would have met the deficit in her balance of payments by her 'invisible' earnings from overseas investments in shipping, banking, insurance, etc., and partly through the dollar earnings of her colonies. But war-time destruction and sale of overseas investments to finance the war had dried up these sources. The situation was indeed very serious and could not be allowed to continue. Speaking in the House of Commons, Sir Stafford Cripps said, "We have improved our productivity, but, not quickly enough. Time is now so short and our resources have got so low that a change in the dollar rate is the only way in which we can get our prices down quickly enough."

On 18th September, 1949, was announced the devaluation of pound-sterling by 30.5% so that £ was equal to $2.80 instead of $4.403. All the other members of the Commonwealth followed suit except Pakistan. Even Canada devalued her dollar by 10%.

The Indian rupee was devalued in the same proportion as pound-sterling. The sterling value of the rupee was maintained at 1s. 6d. but in terms of the American currency it fell from 32 cents to 21 cents. While announcing this devaluation in the Indian Parliament, Dr. Matthai, the then Finance Minister, admitted that it was only a defensive measure. He said, "I feel that in this matter I have had to act not on conviction born of logic necessarily, but so to speak, by the compulsion of events. ...Since the sterling was devalued there was no other course open to us". We had to devalue lest our currency should become over-valued in relation to the currencies of the sterling area which would have made Indian goods dearer there. Independently, the economic situation in India was not such as to neces-

sitate devaluation of her currency as it was necessary for Great Britain. But, as a member of the sterling bloc, India had to fall in line with the other members of the bloc. Nearly three-fourths of India's exports go to sterling area countries. If India had not devalued, it would have become costlier for these countries to buy from India. Our exports would not only have greatly diminished but would have perhaps been altogether wiped out in certain directions. The competitive strength of the Indian industry would have been seriously undermined. India is so vulnerable economically that it was hardly wise for us to take risk by adopting any other course. India thus had no other alternative than to devalue her currency also in terms of the dollar.

Consequences of Devaluation. It follows from the operation of the principles of foreign exchange that the devaluation of the rupee in terms of the dollar must have the following consequences:

1. Those clever speculators in India and Great Britain who managed to transfer their funds to the dollar area on the eve of devaluation were able to increase their funds by 30% overnight. On the other hand, all businessmen, students and others who had to meet obligations in dollars with their rupee and sterling resources were losers to the same extent. These are, however, momentary and minor consequences.

2. Another minor effect was a loss in the value of sterling balances by 30% in so far as they were utilized in making purchases in the dollar area.

3. Exports to the dollar area were stimulated, because the same amount of dollars enabled an American to purchase a large quantity of goods in India inasmuch as the rupees had become cheaper in terms of dollar. On the other hand, imports from dollar area were discouraged because larger numbers of rupees had to be paid to buy goods in America having the same worth in dollars as before. India was thus unable to buy capital goods and food from America. This added to the difficulties of our food situation and hampered our development schemes. The effect on the balance of trade position depends on: (a) elasticity of demand for our exports, (b) elasticity of supply of these goods, and (c) whether prices remain the same. The Government intervention in the form of import restrictions and exports promotion, e.g., abolition of export duty on cotton textiles, is likely to complicate matters and disguise the real effects of devaluation.

Let us see how our balance of payments was affected by devaluation.[1] That devaluation gave a favourable turn to our balance of payments is evident from the fact that, in the quarter immediately following devaluation, there was a surplus of Rs. 41.8

1. For detailed examination read "India's Balance of Payments", January 1949—June 1950 by S. D. Deshmukh in Reserve Bank Bulletin, August 1950, p. 521.

crores for the first time since the first half of 1948. The first quarter of 1950 again showed a surplus, but the quarter April-June 1950, showed a deficit indicating that the immediate stimulus of devaluation had spent itself. The exports to the hard currency areas reached their peak in the first quarter of 1950 being 69% higher than in the corresponding quarter of 1949. But they declined in the second quarter of 1950, showing that the stimulus of devaluation had ceased. This decline cannot be regarded as a seasonal phenomenon because exports as a whole did not show any such variation. During the six months following devaluation, the overall average volume of exports rose by about 49% as compared with the six months preceding devaluation. The transformation of a trade deficit of Rs. 34.1 crores in the third quarter of 1949 into a surplus of Rs. 29.6 crores in the next quarter of 1949 was due to a rise in exports and a fall in imports and may be regarded as an achievement of devaluation. In the year ending 31st March, 1950, India had a trade deficit of Rs. 4.70 crores, but in the months following devaluation India maintained a favourable trade balance and her net dollar earnings averaged Rs. 5 crores.

It was due to this improvement in the balance of payments that for the first time in the post-war period, the year July 1949—June 1950, ended without India's drawing anything from sterling balances.

Exports of our cotton textiles reaped a special benefit from devaluation inasmuch as there was a phenomenal increase in these exports following devaluation. They seem to have replaced other textiles in the foreign markets, because devaluation made them (i.e., other textiles) unattractive. The average earnings from this source rose from Rs. 2.5 crores in the nine months preceding devaluation to Rs. 7.7 crores during six months following devaluation. This may be regarded as a permanent benefit of devaluation.

4. Devaluation created difficulties in the way of our obtaining raw materials like cotton and jute from Pakistan and made materials and accessories from dollar area costlier. To this extent it adversely affected industrial production.

5. Although devaluation completely justified itself by redressing the imbalance of payments, yet it accentuated the inflationary trend. No doubt, immediately following devaluation, the Government was able to bring down the prices of essential commodities like cereals, cotton yarn, cloth, pig iron and steel. The general price index fell by about 30% to 381.3. But by June 1950, this gain was lost and the index rose to 395.6. The Korean War and the increasing threat of the extension of war led to stockpiling of essential goods and materials by all countries, and prices soared higher and higher. The price index touched the high water-mark of 413.5 in the first week of October 1950. Thus, the Government found it really difficult to hold the price

line. But it must be admitted that the devaluation cannot be held solely responsible for this situation.

The fact is that devaluation is no sovereign remedy for the economic ills of the country. At best it can only give a temporary stimulus. It is an artificial process by which some goods can be sold cheaply abroad. The real remedy lies in increased production at reduced cost, and in the curtailment of consumption. Devaluation certainly improved the competitive strength of the sterling area. Before devaluation, the position of sterling was weak and that of the dollar strong. But after devaluation sterling became strong and the latter softened a bit. In 1950, the dollar area showed a surplus of 805 million dollars as against a deficit of 1,532 million dollars in 1949. The dollar gap which was expected to be bridged in the middle of 1952 was bridged much earlier. The British Chancellor of Exchequer, Mr. Hugh Gaitskell, announced the suspension of Marshall Aid to Britain from 1st January, 1951—one year and seven months earlier than the scheduled time. This is no mean achievement.

Revaluation

We have seen that when the pound was devalued in terms of the dollar, India had to follow suit. The rupee was devalued in terms of the dollar not because there was something wrong with it but simply to be in step with the other sterling area countries. The policy of isolation would have meant a disadvantage in respect of trade with the sterling area.

We have also noticed that devaluation corrected our adverse balance and any vestiges of weakness in the rupee disappeared altogether. The Korean War and the stockpiling and the rearmament programmes of leading countries stimulated our exports so much so that certain circles in India came to believe that exports could look after themselves and that devaluation which was resorted to under compulsion must be put an end to. It was, therefore, suggested that the value of the rupee in terms of the dollar be again put up. This move derived strength from the example of Pakistan which refused to devalue with impunity. This move for revaluation had the powerful support of Dr. John Matthai, a highly respected economist and former Finance Minister.

The case for revaluation can be put as under:—

1. Revaluation will have disinflationary effect and bring down prices to the great relief of the public now groaning under the pressure of high price level.

2. Indian exports of jute, textiles, tea, pepper, etc., occupy a strong position in the world markets and need no artificial stimulus in the form of devaluation.

It is, therefore, more prudent for India to look to her interests in the matter of imports. For some time our imports bill in respect of foodgrains, industrial raw materials, machinery, etc.,

is going to be very happy. Revaluation would mean a great saving to India in these purchases. This would have helped us to buy cotton and jute cheaply from Pakistan and capital goods from the U.S.A.

4. With the revaluation, it will be possible to liberalise imports and remove the pinch of shortage of consumers' goods. This will be most welcome to the general public.

The following arguments, however, can be advanced against revaluation:

1. Products of our own industries will suffer in competition from cheaper imports from abroad. This danger will become real when Japanese industry has been rehabilitated.

2. Any isolated action on the part of India in revaluing her currency will handicap her exports to the U.S.A. and other non-sterling countries as against exports from the rest of the sterling area.

3. Stockpiling programme in the U.S A. soon slackened and we cannot count on an ever-expanding market for our exports.

4. Our exports to sterling area will also suffer because they will become costly when our currency is revalued. And nearly three-fourths of our exports are accounted for by the sterling area.

5. Our exports are quite vulnerable. We have been slowly losing ground in jute goods; our textiles are also meeting with increasing competition which will become all the more keen from Japan and Lancashire as time goes by; our tea industry has already become nervous on account of competition from Indonesian tea and the market for pepper will also become tight with improved crops in South-East Asia. Our commitments under bilateral agreements have also reduced our bargaining power. Hence exports are bound to suffer quantitatively from revaluation and this will mean less earnings in foreign exchange. How shall we be able to buy the things that we need so urgently?

The revaluation controversy was set at rest by an authoritative statement by the then Finance Minister, Shri C. D. Deshmukh, on April 10, 1951, in the Union Parliament. He pointed out that according to the Reserve Bank exports 15% revalaution would involve a balance of payment deficit of about Rs. 50 crores and 30% revaluation of about Rs. 135 crores. He made it clear that if we were to revalue, we shall probably be worse off and not better off. It is not a question of getting things cheap, but it would be a question of being able to get things at all, to have the wherewithal to buy things. He said, "Before we decided to import more, which is one of the reasons why revaluation of the rupee is urged, it is important to ensure adequate foreign exchange—a desideratum that revaluation will not achieve". It is not wise to trim our sails to a weather which is abnormal.

Further, revaluation will mean a great loss of revenue in ex-

port and import duties. Hence revaluation in the existing circumstances is not in the interest of India. However, the Finance Minister gave the assurance that "this kind of problem will never be put on the shelf. But we can take a decision from time to time". This seems to be the right attitude.

Problem of Sterling Balances

Accumulation of sterling attracted much attention during the war. But India has always held some sterling in London as part of the paper currency reserve. The amount thus held immediately before the war was £48 million (Rs. 64 crores). The accumulation of sterling during the war, however, was a spectacular affair. The sterling balances reached the peak figure of Rs. 1,733 crores in 1945-46.

The principal source of this accumulation was the reimbursements in sterling to the Government of India by the United Kingdom for the purchase of stores and other materials and certain other expenditure incurred by us on their behalf and on behalf of the other allied nations. But there were other sources of sterling too: (a) Dollar and other non-sterling assets held by Indians acquired compulsorily and taken to the Empire Dollar Pool; (b) annual dollar earnings due to normal trade balance and those resulting from American military expenditure in India. These were also acquired and taken to the E.D. Pool; (c) annual balance of India"s external account; (d) direct purchases of food and other materials by the British Government; and (e) expenditure incurred by Britain under the Defence Expenditure Plan.

Sterling balance represented a debt which Great Britain had incurred from India. Most of it was a "forced debt" and emerged because of the inflationary methods of war finance and of the compulsory acquisition of India's dollar resources. British opinion, however, hesitated to regard it a debt in the ordinary sense of the word. The Indian point of view was that this sterling represents painfully accumulated savings of the Indian people and must be repaid to the last penny in the interest of reconstruction of India's economic life. Luckily this point of view was conceded.

The discussions in early 1947 between the two Governments on the matter of settling these balances were not conclusive, but interim settlements were effected in August 1947, and in January 1948. These two agreements had released £83 million out of which only £3 million could be utilised. In June 1948, the U.K. agreed to release during the three years ending 30th June, 1951, a sum of £80 million (Rs. 107 crores) which together with the unspent balance in our Account No. 1, as on the 1st July, 1948, placed at our disposal resources amounting to £160 million (Rs. 213 crores) over and above our export earnings during this period.

The Government of India had taken over from the United Kingdom all their stores and installations, which they had left

in India at the end of the war. The price to be paid for them was settled at £100 million (Rs. 133 crores).

The Government of India also purchased from the U.K. tapering annuities to meet its liability for the payment of pensions to British officers retired from India. The price of annuities was settled at £147½ million (Rs. 197 crores) for Central pensions and £20½ million (Rs. 27 crores) for the pensions of the State.

A new agreement was entered into in 1949 which was more favourable to India than that of 1948. According to this agreement (1) £81 million were agreed to be the amount of release for 1948-49; (2) the annual release for the 12 [illegible] periods ending June 1950 and 1951 was increased from [illegible] original amount of £40 million to £50 million; (3) there was to be an additional release, not specified in the agreement, sufficient to cover the liabilities out of the Open General Licence XI (O.G.L. XI) before its cancellation; and (4) India had the right to draw on Central Reserves to the extent of about £140 to £150 million, formerly she could not draw more than £15 million.

It cannot be denied that the 1949 Agreement was considerably more liberal than the previous year's agreement. But considering India's balance of payments position, the amount of sterling, especially the convertible portion of it, was inadequate. India had been meeting trade deficit by heavy withdrawals from the I.M.F. But she could not go on doing this indefinitely.

Another settlement in this connection was made in December 1950. It provided for a release up to £35 million from our sterling balances in each of the six years beginning with July 1951.

At first India drew heavily upon its sterling balances, but the speed with which sterling balances were utilised slowed down later. The sterling assets have now become relatively stable. The Second Five-Year Plan provided their withdrawal to the extent of Rs. 150 crores to help in the extensive imports of capital goods and skilled personnel required for the execution of the Plan. In desperate attempt to execute the Second Plan as fully as possible, it was decided in November 1957 to draw more heavily on the sterling balances.

We started the Second Five-Year Plan with our sterling reserves amounting to Rs. 746 crores and they were drawn down so rapidly that the Third Plan started with only Rs. 136 crores of sterling balances. The sterling balances dwindled to Rs. 98 crores at the end of July 1961. In March 1962, they amounted to Rs. 112.41 crores.

International Monetary Fund

In 1943, international monetary plans were prepared by the United Kingdom, the United States and Canada. Out of the fusion of these plans and discussions at the Brettonwoods Con-

ference in the summer of 1944, an international monetary scheme emerged. This resulted in 1945 in the establishment of the twin institutions, viz., International Monetary Fund and an International Bank.

The broad aims of the International Monetary Fund are: (i) Promotion of international monetary co-operation; (ii) promotion of exchange stability and avoidance of currency depreciation; (iii) establishment of multilateral system of payments, i.e., removal of various exchange discriminations; (iv) expansion of the international trade through stable and multilaterally convertible exchanges; and (v) to help member-countries during the periods of their temporary difficulties in respect of their balance of payments.

The main features of the International Monetary Fund are given below:

(i) Out of subscriptions of member-countries a Monetary Fund amounting to 8.7 billion dollars was created.

(ii) A member-country must pay its subscription according to the quota allotted to it. Twenty-five per cent of the quota or 10 per cent of its holdings of gold, whichever is smaller, must be paid in the form of gold, the balance being paid in the form of local currency.

(iii) The resources of the I.M.F. are kept in the form of gold or local currencies. The latter are kept in the central banks of member-countries.

(iv) The purpose of the Fund is to promote exchange stability, to avoid competitive exchange depreciation and to facilitate the expansion of international trade through the multilateral convertibility of national currencies. All exchange restrictions and controls, discriminatory currency arrangements and multiple currency practices which are not approved by the Fund have to be finally eliminated. Some restrictions, however, are allowed during the transition period.

(v) The chief function of the Fund is to purchase and sell currencies of member-countries for one another. The condition, however, is that the Fund's holdings of any member-country's currency should not exceed 200 per cent of its quota.

(vi) A member-country can get accommodation from the Fund to the extent of 75 per cent as its quota **plus** an addition of 25 per cent each year subject to maximum of 200 per cent of their quota. These conditions may be relaxed at the discretion of the Fund. Thus a debtor country will be saved from gold exports and consequent deflation (as happened under gold standard) through the help of the Fund.

(vii) Creditor countries whose export surplus exceeds 75 per cent of their quota will have their currencies declared scarce. Such currencies will be rationed among countries needing them. The I.M.F., however, can increase the supply of scarce currencies

by borrowing or purchase of gold. If even then the supply of these currencies is not enough, the debtor countries must restrict their imports from creditor countries.

(viii) Member-countries are required to fix parities of their currencies with gold. An all-round uniform change in these parities can be brought about by the consent of the member-countries contributing individually more than 10 per cent of the aggregate quota.

(ix) Apart from this, the member-countries can alter the exchange value of their currencies by 10 per cent. Another 10 per cent change can be brought about by the consent of the Fund. Changes beyond this can be brought about with the consent of the Fund only, to correct a fundamental disequilibrium.

(x) To prevent member-countries from taking advantage of the Fund and also building up gold reserves, the Fund may require a member, who has increased its gold holdings at the end of the year, to use one-half of such increase to purchase its own currency.

(xi) The Fund is not to interfere in the internal economy of member-countries to restore equilibrium in their balance of payments.

(xii) Members can withdraw from the Fund by a simple notice in writing.

(xiii) The Fund is managed by an Executive Board of twelve Directors on which India, China, the U.S.A., Britain and France have a permanent seat each. Seven seats are filled by election by remaining members.

The members of the Fund are required to remove restrictions including restrictions on payments and transfers for current international transactions, discriminatory currency arrangements and multiple currency practices, and the absence of convertibility of foreign held balances. Among the key obstacles which stand in the way of removal of these restrictions may be mentioned the pressure of inflationary forces, the over-valuation of certain exchange rates, certain restrictions on imports by creditor countries, the continued inconvertibility of certain major currencies, and the inadequate flow of private capital. "Through the process of continuous contact, review and consultation with its members, the Fund hopes to develop a machinery which will make possible increasingly effective international collaboration in programmes for eliminating exchange restrictions."

According to Ivor Rooth,[1] the Chairman of the Board of Executive Directors, there are three main tasks before the I.M.F.: (1) to help to restore international balance; (2) to help its members in establishing the convertibility of their currencies; and (3) to minimise the international impact of business fluctuations.

1. See his article on Tasks before I. M. F. in the Annual Number of *Commerce*, December 1953, p. 32.

The annual report of the Fund presented in its annual meeting held in October 1958 in New Delhi showed that considerable headway had been made towards the achievement of its objectives. To an increasing extent, the world has been moving towards exchange stability with orderly exchange arrangements, among the Fund's members, the avoidance of competitive depreciation, the elimination of exchange restrictions and establishment of a multilateral system of payments. There is no doubt that some less developed countries with failing demand for their exports had deemed it necessary to intensify their restrictions. But a number of other countries had progressed towards a greater measure of freedom from exchange restrictions or avoided re-imposition of restrictions.

In the end of December, 1958, many countries of western Europe including England announced the free convertibility of their currencies. It has been interpreted as an outward and visible sign of the come-back of Europe in world affairs.

In the circumstances of the world today, with world trade greatly expanded in volume and value, the Fund's resources have proved insufficient to enable it fully to perform its functions. In the period of 1947—57, the physical volume of world exports had increased 90% and prices of goods moving in international trade had increased by 147% in the 19-year period 1937—55. In the last decade the volume of world trade had nearly doubled. On the other hand, the Fund quotas had, with minor exceptions, remained at the amounts fixed in 1944.

Accordingly, the Executive Directors recommended a general increase of 50% in members' quotas and higher proportional increase for Canada and the Federal Republic of Germany and Japan. This added the equivalent of $5.1 billion to the Fund's resources including gold payments of $1.3 billion. The Fund's holdings of gold and U.S. dollars have doubled, increasing from $2.3 billion to $4.6 billion. The Indian Parliament passed in August 1959 a bill doubling India's subscription from $400 million to $800 million. By 1963 the membership had risen to 102. The total of all quotas of the 102 members was $15,549 million on 31st December, 1963.

In its annual meeting held in September 1961, it was realised that the I.M.F. resources of $15,000 million (£5,356 million) were inadequate to meet the changing world payments situation. The member-countries agreed to grant to the Fund stand-by credits of $5,000—$6,000 million. In 1962, 10 major industrial countries had agreed to lend the Fund up to $6,000 million 'crisis money'. The object is to combat any temporary balance of payments problem of countries exporting capital and the adverse effects of sudden and large shifts of money from one country to another. The benefit to the developing countries will be that continuity of aid will be maintained despite the temporary balance of payments difficulties of advanced countries. It is expected that with the introduction of the scheme, the liquidity

of the I.M.F. and the resilience of the monetary system will be improved to the benefit of all countries concerned. The report for 1962-63 said that the available resources of international liquidity were sufficient to keep the world's economy functioning smoothly for the foreseeable future. If enlargement of credit facilities was necessary, the Fund would be quite capable of accommodating itself to emerging needs for such enlargement.

Since 1947 and up to 1961-62, total of roughly $6,300 million have been drawn from the Fund and $4,000 million repaid. The credits granted by the Fund totalled $2,600 million and 30 countries received aid from the Fund. In 1962-63 repayments totalled about $800 million, new drawings about $580 million and stand-by arrangements totalled $1,500 million. Canada and Britain were the only industrial countries which received assistance from the Fund, but 21 industrial countries were helped.

India and the I.M.F.

India agreed to join the I.M.F. because:

(a) India was left free to decide about her link with the sterling and to settle the ratio of her exchange according to her own needs. The Fund does not impose any obligations on India to continue the sterling link. In fact, India has fixed her parity with gold. The Fund provides for a sympathetic consideration for changes in exchange rates.

(b) The Fund agreed to respect the autonomy of its members. India was left free to use her fiscal policy in the interest of her own industrial development.

(c) India was given a permanent seat on the management of the Fund.

(d) A country must become a member of the I.M.F. in order to be a party to the International Bank for Reconstruction and Development. Hence I.M.F. membership was essential if India wanted to benefit from the I.B.R.D.

(e) Since other countries had joined the scheme, India did not want to be isolated in the international sphere.

India has obtained from the Fund substantial financial assistance. Each country can draw, almost as if by right, the foreign currency of other members up to a limit which is proportionate to its contribution to the Fund in its own local currency and gold. India's contribution was £400 million and she was entitled to draw $100 million of foreign currency against the rupee securities pledged by her to the Fund and an additional $27.5 million against her gold contribution. In 1958, India's contribution was raised to $800. In 1957, India availed of $200 million stand-by credit. From the inception of the Fund up to December 1960, India has purchased Rs. 143 crores from the Fund out of which Rs. 82 crores were repurchased. The Fund does not offer long-term loans for economic development (which is the function of

the World Bank), but short-term advances of foreign currency required for meeting temporary balance-of-payments deficits.

The Fund has made available the services of the specialists for advising India on the various projects. A number of Fund Missions have visited this country and have thoroughly surveyed the country's economy and scrutinized its economic and fiscal policies as well as its development plans and given their expert opinion and valuable advice.

Recent Foreign Exchange Difficulties

The foreign exchange situation has been causing a great anxiety in the country in the last few years. The drain on reserves had cost India about half its gold and foreign currency holdings within about a year and quarter of the launching of the Second Plan and was going at a rate which would bring exhaustion of the remainder within a space of another twelve months.

In order to meet the shortage of foreign exchange resulting from the country's adverse balance of trade and depleted reserves, the Government of India arranged to draw from the I.M.F. a total of $72.5 million which was to be utilised if it became necessary to do so. To achieve a better balance in external payments, non-essential imports were cut down. The programmes of the various ministries were considerably pruned and ceilings were prescribed for their foreign exchange outlays. The Government has also been trying to check foreign exchange commitments by adopting the deferred payment method. But this is only a postponement and no remedy.

The Minister of Commerce laid on the table of the House of the People in August 1957, the following list of measures taken by the Government to bridge the gap:—

1. formation of export promotion councils for various industries;
2. removal of disincentives, i.e., drawback of import duties and rebate of excise duty;
3. assistance for the supply of raw materials, e.g., replenishment of iron and steel contents of exported articles;
4. introduction of quality control measures through agmark grading of agricultural commodities and under the certification marks scheme of the Indian Standards Institution, etc.;
5. popularising of commercial arbitration for settlement of trade disputes;
6. assistance for export movement by rail and consideration of problems connected with shipping space for export cargoes;

7. introduction of a scheme of export risks insurance through the Export Risk Insurance Corporation;
8. setting up of the State Trading Corporation;
9. participating in international exhibitions and maintenance of trade centres and commercial show rooms at important centres in the world;
10. conclusion of trade agreements with foreign countries for achieving a more balanced pattern of trade;
11. setting up an Export Promotion Committee for making a comprehensive study of export promotion problems to Government of the means that should be adopted for stimulating exports;
12. formation of a foreign trade board in the ministry to and to make clear cut and concrete recommendations co-ordinate the various export promotion activities undertaken by the ministry; and
13. curtailment of imports.

Dr. V. K. R. V. Rao, the well-known Indian Economist, suggested the scrapping of the legal provisions for a statutory minimum reserve of foreign exchange in the Reserve Bank, giving special incentives to private foreign capital in India, raising of loans from private investors in the foreign markets by offering attractive rates of interest and straightforward loans from friendly foreign governments.

To meet the immediate foreign exchange crisis, and to enable India to honour its commitments, the President of India issued an ordinance on October 31, 1957, which amends the Reserve Bank of India Act. According to this amendment, the statutory minimum currency reserve for the Indian rupee was drastically slashed down to Rs. 200 crores, including Rs. 115 crores in gold from the existing minimum of Rs. 400 crores of foreign securities and Rs. 115 crores of gold. This would in effect enable the Reserve Bank to reduce the minimum foreign security it must hold to Rs. 85 crores and make available for the financing of the Plan an additional Rs. 243 crores in the form of sterling securities.

This, however, was only a palliative. The real resources are the productive assets. So long as they do not develop to an extent that we can do without some imports and increase our exports, the difficulty will continue.

The foreign exchange crisis further deepened in the later half of 1958. According to the weekly statements of the Reserve Bank, the decline in our sterling reserves since April 1958 was in the neighbourhood of Rs. 5 crores per week and earlier in the year the rate was only Rs. 2 crores per week. It is the Second Plan, heavy imports of food and a liberal import policy which have landed us in this difficulty. Food imports constitute an uncertain element in our balance of payments. For instance,

food imports in 1955-56 was only of the value of Rs. 29 crores whereas it was equal to Rs. 228 crores in 1951-52. They have again gone up since then. They were Rs. 181 crores in 1959-60 and Rs. 177 crores in 1960-61. In addition to the pressure exercised on them by variations in food supply, our external reserves have been called upon to sustain a massive development programme.

The impact of the development programme can be seen from the fact that import bill which was Rs. 251 crores in 1955-56 rose to Rs. 1,070 crores in 1960-61 and to Rs. 1,143 crores nearly in 1963-64. The gap between the country's receipts and payments (i.e., deficit on current account) has been very wide indeed, being Rs. 392 crores in 1960-61, Rs. 306 crores in 1961-62 and Rs. 345 crores in 1962-63.

The main source of finance for this large deficit was chiefly the foreign exchange reserve. The following statement shows how they declined. At the end of the years given below they were :—

(*In Lakhs of Rupees*)

1950-51	*1955-56*	*1958 59*	*1959-60*	*1960 61*
9,51,41	8,24,61	3,78,92	3,62,87	3,03,61

The fall in foreign exchange reserves since the beginning of the Second Plan amounts to Rs. 378 crores. There is no further scope for drawing them down.

It would have required an enormous accumulation of external reserves to enable us, on our own, to finance a development programme of the magnitude that we have undertaken. It is obviously beyond us. Foreign aid is absolutely essential and foreign aid has been pouring in. The pressure on India's foreign exchange reserves was considerably relieved by the assistance received from the I.B.R.D and some foreign countries. India needed a huge amount in foreign exchange to complete the core of the Second Plan. The foreign exchange requirements of the Third Plan have been estimated at Rs. 2,030 crores. During the Second Plan, we received external assistance amounting to Rs. 927 crores. The draft on foreign exchange reserves amounted to Rs. 598 crores. As for the Third Plan, external assistance has been put at Rs. 2,600 crores. The I.B.R.D. sponsored several meetings of the friendly countries (known as Aid India Club) interested in India's economic development. As a result of meetings held in May-June 1962, India has been assured of assistance totalling \$2,286 million (Rs. 1,089 crores). Besides providing immediate support to her balance of payments, it will cover import order placed in 1961-62 and 1962-63. The U.S.A. has offered the largest shares amounting to just under 50% of the total (i.e., \$1,045). The credits offered by other countries are :— West Germany \$425 million, U.K. \$250 million, Japan \$80 million, Canada \$56 million, France \$30 million, and I.B.R.D together with International Development Association \$400 million.

The U.S.S.R. had already authorised earlier two credits amounting to Rs. 238 crores for Third Plan projects. A number of other friendly countries, viz., Czechoslovakia, Yugoslavia, Poland and Switzerland have also extended credits totalling Rs. 67 crores.

The budget for 1962-63 assured foreign assistance of Rs. 455 crores. The largest single contribution of Rs. 139.15 crores was expected from the United States. Among the other sources from which assistance was expected, Rs. 55.13 crores was to come from Russia, Rs. 13.33 crores from Britain, Rs. 35 24 crores from the World Bank, Rs. 13.70 crores from the International Development Association, Rs. 15.93 crores from Japan, Rs. 1.19 crores from West Germany, Rs. 2.33 crores from Yugoslavia, Rs. 2.0 crores from Switzerland, Rs. 1.25 crores from Poland and Rs. 175.15 crores was to be negotiated with other foreign sources.

The statement, prepared by the Planning Commission in October 1958, said that the foreign exchange difficulties were attributable to a rise in imports rather than to a fall in exports and the large imports were attributable mainly to the attempt to carry out the Second Plan.

But the shortage had been "to some extent aggravated and hastened" by factors such as heavy demands of defence, large food imports, increased requirements of raw materials and components for maintaining higher levels of industrial output, "rather higher imports of consumer goods in 1955-56 and 1956-57" and increase in prices and freight rates.

Since January 1957, the system of foreign exchange budgeting which was previously in vogue had been revived and there was now a strict rationing of foreign exchange. "Other steps have also been taken to improve the flow of data regarding our foreign exchange position. Consequently we are now in a position to detect and correct in good time any adverse turn in the balance of payments situation," the statement added.

The statement said that the increase in imports and the heavy outstanding commitments of foreign exchange had been the result mainly of the attempt to carry out the plan. But the shortage had been to some extent aggravated and hastened by several factors.

The Government has been able to tackle the situation by securing substantial amounts of foreign aid and by adopting other suitable fiscal measures. The foreign exchange reserves held by the Reserve Bank maintained a measure of stability during 1959-60. There was some improvement in export earnings and some reduction in imports. But the major factor in the stability of our foreign exchange position has been the larger availability of external assistance. The National Council of Applied Economic Research has come to the conclusion that India will continue to face acute foreign exchange shortage in the next 10 years. It is suggested that more attention should be paid

in the coming years to provide for larger maintenance imports on which depends a faster growth of the economy.

Unaccounted or 'Black' Money

Since a raid on certain lockers, the problem of 'black' or unaccounted money has been looming large before the public. It has also been engaging the attention of the Government for some time. It is time to analyse carefully the various issues involved and study some of the measures to tackle the menace of 'black' money.

What is Unaccounted or 'Black' Money?

It is necessary at the outset to understand clearly the nature of unaccounted money or give a precise definition thereof. Proceeding negatively, we might say at once that what has been called unaccounted money is not unaccounted from the point of view of the Reserve Bank. Every single currency note in the hands of the public, 'black' or 'white' can be accounted for by the Issue Department of the Reserve Bank. It has a place in the balance sheet of the Reserve Bank. It is a part of the money supply of the country. There it is well accounted for. It is unaccounted only with respect to the tax authorities. When a certain income is concealed from the tax authorities, it becomes 'black' money. The holder of such money is afraid of spending it in an open legitimate manner where the transaction can be correctly recorded as to the amount paid. Such money is reserved for shady transactions, for giving bribes, for entertainments, for construction purposes or for other forms of conspicuous consumption of which there can be no record. It is simply passed on in the form of cash payment. Such money will not find a place in a bank account which can be operated upon by means of cheques. 'Black' money is thus concealed income on which tax has been evaded or it is money kept hidden for purposes of illicit gratification or illegitimate payments.

It should also be remembered that the labels 'white' or 'black' attached to money are not permanent labels. 'Black' money may be turned into 'white', and vice versa. It is not to be supposed that 'black' money must continue for ever to be damned as 'black' money and must therefore be always spent on secretive and dishonest transactions. If such money is spent on bona fide and legitimate transactions, it is turned into 'white'. For example, a person may build a house and pay wages to labour and buy materials in cash. He may spend on his daughter's marriage. It will remain 'black' only if one buys prohibited goods say smuggled articles or foreign exchange. If a person pays for a commodity more than is permitted by the law, say Rs. 18,000 for a Fiat Car instead of Rs. 12,000, then the excess payment is 'black' and the legitimate price is 'white'. When a person gets money to which he has no legal or legitimate right or which he conceals to evade tax payment, it becomes 'black' money. It is unaccounted for tax pay-

ment. This in short is the meaning of unaccounted or 'black' money. The amount of this money has been variously estimated. A moderate estimate puts it at Rs. 500 crores.

Sources of 'Black' Money

Let us see the different ways in which 'black' money accrues into the hands of certain people. The simplest and most obvious source is illegitimate gratification or bribe. If an engineer gets a bribe of Rs. 5,000 from a contractor or if an officer receives Rs. 5,000 from a person for issuing a permit or sanctioning a quota for a commodity, say, steel, which has a high black market price, it will become black money. The engineer or the officer cannot put this sum in his bank account and show as his income for the fear that he may not be able to explain this item to the satisfaction of the income tax authorities.

It is a matter of common knowledge that individual businessmen or partnerships keep what is commonly known as 'Account No. 2'. Concealed income is put in this account which is kept secret. These funds are kept in the personal custody of the proprietors or partners, and are sometimes utilised again in business by being introduced in fictitious names as 'cash credits'. A part of these funds is spent in lavish personal expenditure, speculation, purchase of foreign exchange, gold and jewellery, etc.

The corporate sector is as great an offender as an unorganised sector even though it has to work under various statutory restrictions and regulations. Owing to the imposition of statutory controls and heavy increase in taxation, many company managements show a deplorable lack of business morality and indulge in transactions of questionable nature or of doubtful validity to make unauthorised income for themselves. The operations are conducted through a secret account. These transactions are, by mutual consent, kept away from the regular account books. The result is that the profits made on these secret transactions are kept away both from the shareholders as well as the tax authorities. Mutual confidence among the parties helps in the continuance of such transactions.

Among the devices generally adopted is the suppression of production to be sold perhaps in the black market. The purchase of certain quantities of raw materials, stores, fuel or labour charges are not brought into the books. This is helped by the respective sellers agreeing not to record them in their own books. The purchasers of secret production do not record these purchases in their books. There is thus a large and all-pervading effort or a grand conspiracy to defraud the government of their revenues. There is also an over-invoicing of purchases and under-invoicing of sales. Another way of getting 'black' money by the management is through illicit commission on purchases of machinery or materials or on sales on behalf of the company.

Still another source is the transfer of land or immovable property. At the time of registration less price is shown than what is actually paid simply to avoid paying the tax on full. This helps the purchaser to unload his hidden or 'black' money and the sellers to save the tax. The purchasing company sometimes inflates certain expenditure on purchasers to help the supplying company to make fictitious entries in its books, and thus reduce the resultant gain. There is thus a large network of secret transactions making it impossible for ordinary audit to detect the ramifications and perhaps the auditors too may be in hand and glove with such unscrupulous company managements for they do not want to lose their customers. Transactions in the black market are a most potent source of black money.

The Root Cause

The root cause of the existence of 'black' money is the existence of shortages, the imposition of controls resulting in bottlenecks in administration and the unbearably high levels of taxation. After all, why does a man conceal his income? The motive is to evade taxes or to acquire funds to be able to pay black market prices or to keep money ready to grease the palm of a dishonest and obliging official. The vast increase in spending in the public and private sectors in recent years and stepping up of taxation combined with marginal shortage of commodities and urban housing have induced businessmen to keep some of their profits outside their books.

Consequences

This 'black' money is a great menace and can have serious consequences—economic, social and political. We may mention chief of them here.

(i) The greatest harm that results from the existence of black money in the hands of the people is corruption. This money floats about poisoning the springs of moral values in society. If early and effective steps are not taken in time, corruption, already widely prevailing in India, may take deeper roots and the whole society may sink beneath the weight of corruption All moral values may disappear and the people may in general become sordid running after money and may become bereft of higher values in life. If that happens it will be disastrous and we shall all become a disgrace to humanity.

(ii) The economic fabric built by means of economic control in the interest of sound and healthy development may be shattered to pieces. In a developing society, controls on consumption, production and capital issues are absolutely essential. In the absence of these controls, we shall not achieve the targets or objectives of development. 'Black' money will defeat all policies designed to further economic development in certain directions. There will be anarchy and chaos instead of orderly development. 'Black' money will distort economic structure and nulli-

fy in effect all efforts at development. 'Black' money must therefore be muzzled, if economic controls are not to be reduced to a dead letter and economic plans turned into paper plans.

(iii) There is a great loss of revenue to the State. 'Black' money is the tangible expression of tax evasion. All money that goes into hiding represents amounts on which no tax payment has been paid. If the estimate of Rs. 500 crores is anywhere near truth, the loss to the State exchequer is enormous. The black money is utilised in further black transactions so that a super-structure of business is everywhere beyond the long arm of the tax gatherer. It is swindling on a large scale within the knowledge of everybody. 'Black' money is thus a great danger economically and socially. We are caught in a vicious circle. Tax exasion necessitates higher taxation which in turn tempts greater evasion. Honest taxpayers are penalised and the unscrupulous ones go on merrily in their nefarious pursuits.

(iv) **'Black' Money and Inflation.** 'Black' money is said to be the cause of inflation. How far is this statement trut? This statement does not stand the scrutiny of modern economic analysis. There is no doubt that we in India have at present a co-existence of 'black' money and inflation. But to say that 'black' money is responsible for inflation is not quite correct. 'Black' money accrues in the hands of categories of persons who are very rich and who do not increase their expenditure on commodities consumed by the ordinary people. 'Black' money is spent on conspicuous consumption. Hence 'black' money cannot be the cause of rise in prices of food-grains, sugar, kerosene oil, vanaspati, etc. It pushes up the prices of land, houses, automobiles and other durable and costly commodities. Moreover, it is money as such and not 'black' or 'white', increase of which must cause inflation. Besides 'black' money has to be spent by its holder very carefully and secretly and it cannot come out into the open. It has a smaller circulation and lower velocity. Thus from the point of view of the price level, it is 'white' money which is potentially more dangerous. The fact is that it is all money, 'black' and 'white'. which is causing inflation. In India first during the last war and later on account of development plans the tempo of spending has gone up to great heights and there has been a tremendous increase in money supply. It is this increase in money supply, whether 'black' or 'white', which is responsible for inflation.

Remedial Measures

That 'black' money is a great menace and effective steps must be taken to meet it, is admitted on all hands. If the causes have been correctly diagnosed, the cure cannot be different. The measures that can be taken in correction fall into two categories:

(a) Measures to unearth 'black' money; and

(b) Measures to prevent 'white' money turning 'black' money

or accumulation of 'black' money in the future. Let us take these two types of measures separately.

Measures for Unearthing 'Black' Money

This set of measures will include (i) Voluntary disclosures and (ii) Surprise raids.

(i) **Voluntary Disclosures.** It should be made compulsory on the part of all individuals possessing more than a certain amount, say, Rs. 5,000, in cash to file a declaration as to the amount they hold. But all such amounts cannot be accepted as 'white' money. What is essential is that justice must be done to the honest taxpayer and there should be no premium on tax evasion. Hence it will be necessary to levy some tax on the disclosed amounts but the tax should be light enough to tempt 'black' money to come into the open through voluntary disclosures. It is suggested that an immediate flat rate of 20% may be charged on such sums provided the balance is employed productively in trade or industry or invested in Government Securities carrying low rate of interest so that Government is compensated for loss of revenue. A period of three to six months should be given for such disclosures. A person who fails to disclose should incur severe penalty amounting even to confiscation.

(ii) **Surprise Raids.** After the period of disclosure is over, it will be necessary to organise surprise raids. The Government collected sizeable amounts in the raids conducted already. There is no doubt such raids mean lot of harassment. But there seems to be no way out. Surprise raids are a necessary complement to the disclosure scheme. The raids will be amply rewarded. Having defrauded the Government of the revenues for such a long time, it should not now lie in the mouth of unscrupulous money hoarders to complain of harassment.

Preventive Measures

As for the other type of measures designed to prevent the accumulation of 'black' money in future, we might mention the following:

(i) **Removing the shortages in the economy to eliminate black markets.** If shortages are abolished, controls and permits become redundant.

(ii) **Eliminating controls and administrative delays so as to minimise opportunities and necessity of corruption.** Controls which cannot be enforced serve no useful purpose. They only enable sellers to book their sales at controlled prices and realise 'black' money in the open market;

(iii) To tighten the laws against tax evasion by increasing penalties or making the culprits liable to imprisonment;

(iv) To tighten laws against speculation and violation of foreign exchange regulations; and

(v) To lighten the tax burden so as to take away the temptation for tax evasion. The following recommendations of Prof. Nicholas Kaldor may be given effect to, e.g., (a) The maximum rate of personal taxation on income should not exceed 45%; (b) the maximum rate of annual wealth tax should be 1.5% on the excess of net wealth over Rs. 15 lakhs; (c) A single uniform tax of 45% should replace all taxes on company profits; and (d) a tax of 45% should be deducted from all dividends.

Moreover, in the interest of healthy growth of the economy, there should be a ceiling laid on all direct taxes payable annually by an individual so that the total quantum of the taxes should not exceed a certain percentage of the total annual income of the individual leaving him sufficient incentive to increase his income.

A system of investment allowances may be introduced on a selective basis. Any part of the income invested in selected industries should be exempted from income tax and wealth tax.

Thus if taxation is made rational and more realistic, the temptation to conceal income and evade taxes may be minimised.

Is Demonetisation a Suitable Remedy?

It has been suggested that high denomination notes should be demonetised so that the holders of 'black' money are compelled to disgorge and new notes may be issued. But this is no remedy. If the causes of 'black' money continue to operate and the sources are not dried up, 'black' money will come again into existence and be accumulated. We have said that no money is permanently 'black' or permanently 'white'; one type changes into the other as favourable opportunity offers. Since the stream of 'black' money is constantly fed by the stream of 'white' money, the proper solution of the problem is to control 'white' money flows and also eliminate functionless restrictions and serious imbalances. Demonetisation can only prevent holding of concealed income in the form of currency as distinct from other forms of wealth.

Series of measures announced by the Government in November 1964 are designed to tighten the squeeze on tax-evaders and holders of 'black' money. The tax-evaders are going to be penalised and voluntary disclosures may earn remissions from penalty. The reward for furnishing information about concealed income has been raised to four times the existing rate of 2.5% of the extra tax realised. Adequate intelligence and investigation must be set up if these measures are to prove fruitful. There is need for effective coordinated intelligence organisation for the Income Tax and Sales Tax departments. A closer check should be exercised on the production and sale of manufactured goods. Surprise checks should be conducted by Governmental auditors on inventories and stocks. A special audit machinery may be created. Too much reliance should not be put on voluntary disclosures. To launch prosecutions in preference to

penalty will be more effective. Seizures effected under Act against smuggling or Gold Control Order and Foreign Exchange Regulations will go a long way in eliminating unaccounted money. Benami transactions in shares and debentures should be detected and penalised. Currency of blank transfers should be prohibited. Since the principal aim of concealing income is the evasion of taxes, rigorous collection of taxes is of prime importance. If somehow tax evasion could be fought successfully, the problem will be solved.

In order to unearth 'black' money, the Lok Sabha passed on March 3, 1965, the Income-Tax (Amendment Bill) to enlarge the Government's powers of search and seizure to unearth unaccounted assets. Earlier, the Finance Minister had announced concessions for voluntary disclosure of concealed assets. If a voluntary disclosure is made the person doing it will not entail any penalty under the Income Tax Law. There are provisions in the budget for 1965-66 relating to the new scheme for voluntary disclosure of and payment of tax on an ad hoc basis on unaccounted income. The scheme applies to the disclosure of income which a person has failed to disclose in any return of income filed by him before 1st March, 1965, or which has escaped assessment in any assessment made before the aforesaid date.

The scheme will operate during the period from 1st March to 31st May, 1965. The rate of the tax payable on the undisclosed income declared under the scheme is 60 per cent of such income. However, where in respect of such income declared in March 1965, the declarant pays tax thereon in the said month at the rate of 57 per cent, no further tax will be payable by him in respect of that income. The declarant will be immune from any assessment or reassessment of the income declared by him.

In short the real solution of the problem lies in checking inflation through increased production and a more rigorous enforcement of the regulations in the field of taxation, prices, foreign exchange, and investment. This will ensure that 'black' money does not play havoc with the economy. There is one important condition that officials and non-officials should observe certain standards of morality. In the atmosphere of universal dishonesty and all-pervading corruption, nothing will succeed and we must be prepared for frustration and demoralisation all around.

CHAPTER XXVIII

Banking System

A study of the problems of Indian banking is highly important. Banking institutions mobilise savings and use them for productive purposes. Proper banking facilities are sine qua non of progress in trade, industry and agriculture. The usual requirements of finance for industry or agriculture can be divided into: (i) short term, (ii) medium term, and (iii) long term. A sound banking structure should be able to meet all the three kinds of financial requirements. However, as things today are, facilities for long-term loans are still inadequate, particularly in respect of agriculture. Similarly there are gaps in the mobilisation of savings and provisions of banking facilities.

The banking facilities in the country are utterly inadequate. For a population of over 40 crores, the total number of offices of both scheduled and non-scheduled banks at the end of 1963 stood at 5,032 and 510 respectively. The following table gives a comparative idea of the banking conditions in some important countries of the world:—

Banking Offices, Area and Population—Comparative Figures for 1949.[1]

Country	*Area in square miles (thousands)*	*Population in millions*	*No of banking offices*	*No. of offices per million of population*	*Average area served by a banking office in sq. miles*
U.K. ...	89	50	11,461	229	8
U.S.A. ...	3,674	147	18,975	129	194
Canada ...	3,690	13	3,323	256	1,110
Australia	2,975	8	3,590	450	827
India ...	1,269	439	5,000	11	250

1. Source for all other countries '*Rural Banking Enquiry Committee 1950*' and for India '*Trend and Progress of Banking in India*'.

Constituents of the Indian Money Market

The banking system in this country consists of diverse types of institutions. We have large organised banks, small banks as well as indigenous bankers, and petty **mahajans**. The Indian money market, unlike the British money market, is a loose structure. Thus the Indian banking system is composed of the following:

(a) Indigenous bankers.
(b) Co-operative banks.
(c) Post-Office savings banks.
(d) Joint-stocks, including the State Bank of India (previously Imperial Bank).
(e) Foreign exchange banks.
(f) The various finance corporations and the various investment corporations.
(g) The Reserve Bank of India.

We have already discussed the co-operative banks.[1] We shall now discuss the other important members of the Indian money market.

Indigenous Banking

The survivors of the old indigenous banking system are carrying on their age-old operations in different parts of the country under the different names. In Madras they are called **Chetties**; in Punjab and U.P. **Sahukars** and **Mahajans**; in Bombay **Shroffs** and **Marwaris**, and in Bengal **Seths** and **Baniyas**. The indigenous bankers are to be distinguished from the money-lenders thus: (a) While the indigenous bankers receive deposits and deal in **hundis**, the money-lenders do not do so; (b) the indigenous bankers finance trade and industry, while the money-lenders mainly advance loans for domestic purposes; (c) the indigenous bankers take particular care about the purpose for which they lend, while the money-lenders are merely concerned with the interest that they get; and (d) in the case of indigenous bankers, the payment is more punctual and the rate of interest is lower.

There is a concentration of banking offices in big towns. Many towns and all the 5,58,089 villages are without any banking facilities. They have to depend either upon the co-operative society or the money-lender for the supply of their financial needs. "Despite the keen competition of co-operative societies and despite the heavy losses and difficulties of the last depression, the money-lender and the indigenous banker[2] still continue to be the backbone of India's rural finance."[3] The number of money-lenders and indigenous bankers in India in 1931 came to no less than 3,29,000. We shall first examine the state of rural credit and the position of the village money-lender.

The Village Money-lender

The main business of the village money-lender is to lend

1. Ch. XIII on Co-operation.

2. Dr. L. C. Jain distinguishes between a money-lender and an indigenous banker. The former only makes loans, while the latter receives deposits and deals in *Hundis* in addition—*Monetary Problems of India*, p. 55.

3. Muranjan—*Modern Banking in India.*

money to the needy. Very rarely has he any funds but his own to lend, as he receives no deposits. He lends either on the security of ornaments or promise of payment at the next harvest. His primary business is to make consumption loans. Occasionally he keeps a grocery shop in the village and buys his debtors' crop which he disposes of. The rate of interest varies with the borrower's reliability. It is higher in the case of unsecured loans. In times of famine and scarcity, at the birth of a son, or at the marriage of a daughter, he is the sole support of the zamindar. In fact, he is truly the custodian of the peasant's honour.[1] In spite of penalising legislation, the hold of the money-lender is still quite firm. When account is taken of the huge rural requirements, vast agricultural debt and the uneven development of co-operative credit societies we find that the total working capital of all co-operative societies, and banks put together is very little and much of the field is still with the money-lender.[2]

The peasant is either too poor or too improvident to have any reserve for use in emergency. Thus the need for an agency to supply capital to the needy is urgent. The money-lenders, therefore, cannot be wholly eliminated, but their questionable practices should be strictly controlled. They should be made to keep their accounts in a prescribed manner. Measures should be adopted so that they can receive accommodation from commercial banks and, in case of need, from the Reserve Bank. The Reserve Bank has special responsibilities for the improvement of agricultural credit.

Rural banking has assumed special importance in recent years from another angle. Due to the heavy rise in prices of foodgrains and primary commodities, "it is likely that a larger measure of the national income has accrued to the rural sector." The bigger landlords are certainly saving more than before.[3] Very probably the village **bania** and the trader also have larger savings. These are lying in hoards and cannot be usefully employed for lack of banking facilities.

To discover ways to tackle this two-faced problem, namely, provision of credit for agriculture and utilization of savings lying in unproductive hoards, the Government appointed a Rural Banking Enquiry Committee which reported in 1950. The Committee recommended the provision of better remittance and other facilities to commercial as well as co-operative banks. It also recommended branch expansion by commercial banks generally and the Imperial Bank (now the State Bank) of India in particular to places which had no banking facilities.

In 1951, therefore, the Reserve Bank appointed a Committee of Direction to conduct an All-India Rural Credit Survey and

1. Reserve Bank of India: *Review of the Co-operative Movement in India*, 1948-50.

2. Punjabi proverb *"Shah bina pat nahin, guru bina gat nahin"*.

3. Menon, M. S.: "Rural Indebtedness in Recent Years" in the *Agricultural Situation in India.*

suggest ways for the improvement of rural credit and banking development. The Committee reported in 1954. We have already, in earlier chapters,[1] considered in detail the recommendations of this Committee and how far they have been implemented. This is the position as regards rural credit.

The Indigenous Banker

In the towns we find the indigenous bankers operating in the money market. They play a very important role.

The indigenous bankers receive deposits and pay a higher rate of interest on them than the banks. They engage in trade, distribute goods and move crops to the ports. They buy **Hundis** drawn by businessmen, charging a higher rate than the banks and keeping the difference as their profit. They also finance the traders and act as a link between the bazaar and the bank by discounting **Hundis** and getting them rediscounted by banks when they are in need of funds. They lend money against bullion or jewellery, goods, or on personal confidence. They accommodate those who fight shy of banks, but at higher rates. They play a very important role. As Sir George Schuster remarked, "It is impossible to over-estimate the part that indigenous bankers play in the whole of the banking and credit machinery of India. It would be no exaggeration to say that his part of the organization represents 90 per cent or more than 90 per cent of the whole."

Indigenous bankers generally rely on their own resources or borrow from one another to carry on their business. In times of emergency, however, they borrow from the commercial banks or the State Bank by rediscounting **Hundis**. But on account of the very rigid conditions on which the banks are prepared to lend, the modern and the indigenous parts of the Indian money market remain separated from each other so that **bazaar hundi** rate (the rate at which the indigenous bankers discount **Hundi**) is quite different from the bank rate and the market rates of discount.

Defects

Indigenous banking suffers from certain defects. The main defects are: (i) They follow old and out-of-date methods of keeping accounts and doing business. (ii) The deposit side of their business is practically nil. They rely on their own funds. The result is that the savings of the people remain scattered and idle instead of being mobilised and employed usefully. The owned funds of the indigenous bankers are insufficient to meet the needs of trade and industry. (iii) **Hundis** play a comparatively small part in their total transactions which are largely financed by cash. (iv) There is no proper organisation among them which might help in improving their business. (v) They are virtually

1. Ch. XII on Agricultural Finance and Indebtedness and Ch. XIII on Co-operation.

unconnected with the modern part of the country's money market. Consequently effective credit control by the Reserve Bank is impossible.

But the importance of the indigenous bankers in the banking and credit system of the country can hardly be exaggerated. The joint stock banks finance only a small portion of the requirements of trade and follow a rigid procedure in advancing loans. The indigenous bankers, on the other hand, cater for the financial needs of much larger clientele, viz., the innumerable small traders and industrialists, who cannot fulfil the conditions laid down by the banks. Their importance also lies in the vast experience and intimate personal knowledge possessed by them about their customers. These are very invaluable in developing the credit system and a bill market in the country. If the indigenous system could be improved, it is bound to play even much greater and more useful part in the economic progress of the country than it has been doing so far.

Suggestions for Improvement

Here are a few suggestions to improve indigenous banking: (i) They should modernise their methods. For instance, they should keep accounts in a proper manner and get them audited, should use bills and cheques, should be prompt in receipt and payments of money; (ii) they should separate their banking business from their trading business; (iii) they should be encouraged to accept deposits; (iv) they should be brought into the same relationship with the Reserve Bank as the scheduled banks stand to it, i.e., they should be given facilities of rediscount, loans and advances and of free remittance, etc.; (v) even when given such facilities by the Reserve Bank, they should not be required, at least for some time, to keep a certain percentage of their total liabilities with the Reserve Bank. This exemption is necessary in view of their insufficient resources; (vi) those bankers, who cannot stop their non-banking business, and therefore, cannot be put on the approved list of the Reserve Bank, should be given facilities of advances and discounting by the State Bank and other joint-stock banks; (vii) they should be encouraged to undertake and develop bill broking business, this will develop bill market and enlarge their business; (viii) they should be encouraged to form themselves into joint-stock to carry on their functions on a large scale; and/or (ix) co-operative banks of indigenous bankers should be formed. These would discount the **hundis** of their members and approach the Reserve Bank for re-discounting the same.

The Indigenous Banker and the Reserve Bank

In view of the great importance of the indigenous bankers, it is essential, therefore, that these bankers should be so adjusted into the money market as to supply banking facilities at reasonable rates.

Sir J. B. Taylor, sometime Governor of the Reserve Bank, drew up a scheme to link up directly the indigenous bankers with the Reserve Bank. The conditions were circulated to the bankers for opinion, but they were considered to be too stiff. Accordingly they were toned down into the following:—

(a) Indigenous bankers who were prepared to increase capital to Rs. 5 lakhs within five years, were to be put on the register of the Reserve Bank.

(b) They were to shed off all their non-banking activities.

(c) They must maintain proper accounts and have them audited.

(d) They must publish balance sheets and submit periodical statements to the Reserve Bank.

(e) In return, they were to have the privilege of: (i) having their papers directly rediscounted with the Reserve Bank, (ii) the right to obtain advances against Government paper, and (iii) remittance facilities similar to those open to the scheduled banks. Indigenous bankers, otherwise not eligible under the above scheme, might join together to form Discount Companies within a limited area.

The replies received from the indigenous bankers were not favourable. The indigenous bankers felt that the privilege of re-discounting of papers with the Reserve Bank was not valuable enough for them to give up their hereditary non-banking business in gold and silver.

As a consequence of the rejection of the Bank's proposals, no further progress in this direction was made. It is, however, essential that the bankers should fall in line, ultimately shake off their non-banking activities and take to formal prescribed banking methods in the interest of the advance of banking in India. Some indigenous bankers have been able to get facilities from the Reserve Bank. At the end of March 1957, there were only 15 indigenous bankers who had taken advantage of the Reserve Bank's offer and had been given remittance facilities like the 89 scheduled and 52 non-scheduled banks eligible for these concessional rates.

In April 1961, the Reserve Bank re-affirmed its policy with regard to the linking of indigenous bankers with the organised banking system on the conditions: (a) that the indigenous bankers must segregate their non-banking. business from the banking business, (b) they should have their accounts audited, and (c) they must submit to Reserve Bank supervision and control. The Bombay Shroffs' Association has been asked to submit concrete proposals in this connection.

Joint-Stock Banking

The Agency House of Calcutta and Bombay took the modern banking in the 18th century. Their banking operations were, however, subordinate to their main business of trade.

The three Presidency Banks of Bombay, Bengal and Madras, which were destined to play a very important role in the banking fortunes of India, were amalgamated into the Imperial Bank of India in 1921 (now the State Bank of India).

There was a mushroom growth of banks in India in the first decade of the present century. Some of them were destined to fail, others, like the Bank of India, the Bank of Baroda and the Punjab and Sindh Bank, have proved to be solid. They made rapid progress till 1913, when Indian banking was overtaken by a crisis. The failure of one of the biggest, the People's Bank of India, involved many others in ruin. Bank after bank met with disaster until as many as 50 had failed.

The main causes of these bank failures were: (a) Small capital and small standing, (b) lack of trained managers and experienced staff, (c) big gaps between authorised, subscribed and paid-up capitals, (d) fraudulent accounts (e) loans on insufficient or no security to directors and their friends, (f) speculation, (g) locking-up funds in long-term industrial undertakings, (h) negligence, incapacity and dishonesty of the staff, (i) low ratio of cash to liabilities, (j) the existence of hundreds of small banks scattered all over the country, (k) imprudent investments, (l) laissez-faire policy of the Government.

Now, however, our banking structure is quite solid. Neither the depression of the thirties nor World War II, and not even the cataclysmic partition of the country has succeeded in giving a serious set-back to joint-stock banking in India. We have not escaped unscathed in these catastrophies but even more advanced countries have suffered heavy losses.

The usual business of joint-stock banks in India is:

(a) Receiving deposits of all kinds—fixed, current and savings;

(b) discounting internal bills, advancing loans against stocks and shares, immovable property and commodities. They also allow temporary over-drafts to approved customers;

(c) transmitting funds from one place to another on behalf of customers through bank drafts and letters of credit;

(d) purchasing and selling shares for clients on commission; and

(e) keeping documents and jewellery in safe custody.

There are two important spheres of business in which the joint-stock banks play practically no part. In the first place, they finance only the internal trade of the country leaving foreign trade largely to exchange banks. The margin of profits in foreign exchange business is too low and the funds needed too large for most of the joint-stock banks.

Secondly, they have very little to do with the marketing of agricultural produce, as the masses in the villages are illiterate

and the security they can offer is not liquid enough. The absence of suitable warehouses is mainly responsible for the lack of agricultural bills which could be discounted by joint-stock banks.

Their Liabilities. The **liabilities** of joint-stock banks are their capital, reserves and deposits. The capital and reserve of a bank serve to build up a public confidence in it. The usual ratio between cash and deposits is 6 to 8 per cent in the case of scheduled banks in India. The ratio depends upon current economic conditions and the amount of money seeking to be deposited.

Their Assets. The assets of joint-stock banks consist of: (1) cash; (2) discounted bills; (3) Government and other securities; (4) loans and advances to clients; and (5) immovable property.

The ratio of cash maintained by a bank to its liabilities is a very important matter for a depleted cash position might result in disaster. Discounted bills and Government securities come next in importance for defence against a heavy public demand. Bills can be rediscounted with the Reserve Bank, while loans can be borrowed on the strength of securities. The latter can also easily be sold for cash. Indian banks require more liquid resources due to their greater vulnerability to rumour, but actually percentage of cash and deposit with banks is higher in U.K. and U.S.A. as compared with India but is lower in Canada and Pakistan.

The situation is not without dangers and the Reserve Bank is trying its level best to induce the banks to raise their liquidity. In order to safeguard the soundness of the banking system, the minimum ratio of liquid assets to total demand and time liabilities was raised from 20% to 28% by banking companies (Amendment) Act, 1962. It may, however, be mentioned here that the Indian bankers maintain a high percentage of Government securities which is a second line of defence.

Scheduled Banks[1]

The table given below shows the position of Indian joint-stock banks in recent times. During the war they wisely kept higher cash reserves. The figures of resources for post-war years have improved. This is due to stricter control by the Reserve Bank. The reserves are adequate considering the large amount of Government securities they carry in addition.

1. They are all banks with a capital of over Rs. 5 lakhs.

Consolidated Position of Scheduled Banks

(In crores of rupees)

Year (Last Friday of Dec.)	No. of eporting Banks	Deposits			Cash in hand and with Reserve Bank (crores)	Percentage of Col. 5 to Col. 4
		Demand	Time	Total		
	1	2	3	4	5	6
1939 ...	59	140	106	246	24.5	10,0
1949 ...	90	551	252	803	117	14·6
1955 ...	89	571·8	403·9	775·7	100·2	10·3
1960 ...	93	721·0	1086·4	1807·3	162·0	9·0
1961 ...	82	732·6	1102·1	1834·7	155·8	8·5
1962 ...	80	816·9	1222·0	2038·9	132·7	6·5
1963 ...	79	997·2	1255·6	2252·8	141·4	6·3

The trend of deposits during the last two years is on the increase, both in demand and time deposits. The deposits are increasing in view of the increase in notes circulation.

Non-Scheduled Banks

In addition, there is a very large number of joint-stock banks which are not on the scheduled list of the Reserve Bank. Their progress is clear from the following table:

Consolidated Position of Non-Scheduled Banks

(In crores of rupees)

Year (Last Friday of Dec.)	No. of reporting banks	Deposits			Total liabilities	Cash in hand and with Reserve Bank	Percentage of Col. 6 to Col. 4
		Demand	T me	Total			
	1	2	3	4		6	7
1939	669	5	11	16		1	6·9
1949	358	15	25	40	53	4	9·0
1955	387	25	42	67	83	6	9·1
1957	318	15	34	49	62	3	7·9
1958	290	14	32	46	59	3	7·6
(Last Friday Sept.)							
1959-60	267	14·7	34·4	49·1	60·3	3·6	7·9
1960-61	256	13·7	35·5	49·2	60·2	3·5	7·3
1961-62	212	10·23	27·91	37·61	48·44	2·96	7·9
1962-63	211	10·82	27·26	37·31	47·37	2·52	6·8

The table mentioned above indicates that the ratio of cash to liabilities of these banks is about as much as of scheduled banks. This is, however, not always the case. The banks lend out freely in peak season and then their ratio falls to 6% which is dangerous. During the last few years the Indian money market has been tight, hence there has been great temptation to lend out. The resources of these banks are small and generally they keep the minimum necessary cash. Their total liabilities have come down to Rs. 48 crores at the end of 1961-62 from Rs. 87 crores in 1956-57. The decrease is due to fall in their number. Some of them have amalgamated with scheduled banks, others have been included in the second schedule and still others have taken to non-banking business. Unlike the scheduled banks, the time liabilities of these banks exceed the demand liabilities. From 1945, non-scheduled banks desirous of opening accounts with the Reserve Bank were allowed to do so at the Bank's discretion if they agreed to maintain a minimum balance of Rs. 10,000 with it.

Defects of Joint-Stock Banking

The joint-stock banks in India have to face certain difficulties which handicap them in the discharge of their functions. Most of them have small resources and suffer from severe competition of the foreign exchange banks. Another difficulty, till recently, has been the absence of the bill market. Then, the banking business is conducted in English which is unknown to the great bulk of the Indian people.

Besides these external handicaps, the Indian banks have suffered from a host of grave defects in their internal working. Most of these defects have been removed by the Banking Act of 1949. These defects are:—

(i) **Small Capital.** Most of the Banks are started with small capital. They also do not care to strengthen their capital by building up reserves from profits which are thoughtlessly frittered away in distributing high dividends. The Reserve Bank should discourage the setting up of new banks with small capital and should encourage the amalgamation of small banks.

(ii) **Assets not liquid.** In their greed to earn higher profits, they allow the ratio of reserve to liabilities to fall to dangerously low levels. Most of their other assets are not held in liquid form. Even a little unusual demand would bring them to grief.

(iii) Also, the well-recognised canons of sound banking are ignored while making advances. The lending is often rash and is made without proper security. The tendency to over-extend credit is a frequent cause of a bank failure. Generally speaking, they do not possess the machinery for investigating the credit worthiness of the borrowers. Their lending policy is also defective in that they ignore the principle of the diversification of risks. It is suggested that they should have a sound lending policy. The Reserve Bank can give them guidance in this respect.

(iv) In the past, a craze for high profits involved them in trading and manufacturing business in the guise of agency businesses or subsidiary companies. Thus they took risks over and above the normal risks of banking business. This is now becoming uncommon.

(v) A small group of industrialists or financiers have tried to acquire monopoly control over banks. They utilised the funds of the bank in their own business. Unsecured loans given to the directors or their friends endangered the bank. The Reserve Bank now keeps a watch over such malpractices.

(vi) Sometimes there is undesirable manipulation of accounts. A misleading position is sought to be created about the financial position of the bank.

(vii) The branch banking policy is also unsound. Most of these branches are opened in centres already well-served by other banks. This has led to unhealthy and wasteful competition. Some branches are opened in places far away from the main field of bank's activities so that their proper working was impeded. The system of supervision over the branches in the case of some banks is not satisfactory. Regular returns of advances, etc , are not called or not properly scrutinized. There should be efficient system of inspection of branches.

(viii) There is also a dearth of properly trained banking personnel. The management of the banks is sometimes left in the hands of untrained staff. This is a very serious defect since banking is a specialised business. The directors generally lack the knowledge and experience necessary for supervision over executive officers. Sometimes the system of internal supervision and audit is defective Dividends are declared without providing for doubtful debts or for depreciation in investments. These flaws must be set right.

Unless these defects are removed, the Indian banks, at any rate some of them, may have to face difficulties time and again. A sound banking system is essential to ensure rapid development of trade and industry which is the objective of our economic development plans. It is good that the Reserve Bank has now been given the necessary powers and authority to guide the Indian money market and put it on sound basis.

Banking Reform

The development of banking in India, during the war and after, presents an impressive picture but has not been free from certain undesirable features. Some of these were checked through suitable amendments of the Indian Companies Act, e.g., the extreme divergence of ratio between authorized, subscribed and paid-up capitals, issue of different clauses of shares with disproportionate voting rights and unfair terms of agreement with managing directors. But there was still urgent need for comprehensive legislation to safeguard the interest of depositors.

The Governor of the Reserve Bank in 1945 warned banks against (a) indiscriminate branch banking to attract deposits; (b) acquiring control over non-banking companies by the purchase of their shares; interlocking of interests between banks and industrial concerns; the holding of shares of concerns controlled by the directors, and the floatation of investment trusts; (c) manipulation in preparation of balance sheets; (d) speculation in shares, Government securities or property; (e) distribution of profits, instead of strengthening reserves. To checkmate these evil tendencies legislation was called for.

Banking Companies Act, 1949

A comprehensive piece of legislation was enacted in 1949. The main features were:—

1. Banking was defined as "the accepting for the purposes of lending or investment of deposit of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise." No company could carry on work unless the word "bank", "banker" or "banking" was used as a part of its name.

Every banking company had to take out a licence from the Reserve Bank which satisfied itself that the company was in a sound position, and that its affairs were being properly conducted, and in respect of a foreign bank, that the country of its incorporation did not discriminate against Indian banking companies.

2. The Act applies to all banking companies except co-operative banks.

3. The Act prescribes conditions of minimum capital and reserve. These vary according to "geographical coverage" of operations. The paid-up capital and reserves of an Indian bank must not be less than Rs. 5 lakhs if it has places of business in more that one State, and Rs. 10 lakhs if such a bank has an office in Bombay and/or in Calcutta. This provision would prevent mushroom growth of banks in the country. Banking companies incorporated outside India must have a paid-up capital and reserve of Rs. 15 lakhs and, if Bombay and/or Calcutta is also a place of their business, Rs. 20 lakhs.

4. Subscribed capital shall not be less than 50% of authorized capital, and paid-up capital shall not be less than 50% of subscribed capital. Voting rights shall be in proportion to the contribution of capital but in no case shall they exceed 5% of the total voting rights. This would prevent monopoly control of a bank by a small group of financiers.

5. Every **scheduled bank** shall continue keeping reserves with the Reserve Bank at the old rate of 2% of its time liabilities and 5% of its demand libilities.

6. **Non-scheduled banks**, too, are required to maintain cash reserves with themselves and/or the Reserve Bank in the same proportion and to submit returns on each Friday of the month.

7. Every foreign banking company, after two years from the date of the Act, shall maintain in India cash, gold or approved securities valued at not less than 20% of its liabilities. Balances kept in the Reserve Bank are treated as cash. This provision will ensure the liquidity of assets.

8. Interlocking directorates among banks are prohibited.

9. Unsecured loans to directors or their firms are prohibited. Monthly returns of such loans are to be submitted to the Reserve Bank.

10. No banking company shall pay any dividend until all its capitalized expenses have been written off. Not less than 20% of the profits shall be put in the Reserve Fund till it is equal to the paid-up capital. This would strengthen the financial position of the bank.

11. No banking company can open a branch in a new place or change the location of an old branch without the previous sanction of the Reserve Bank.

12. Trading as a business is prohibited to a banking company. It shall not be managed by a managing agent or by a person who had been declared an insolvent, who is convicted of moral turpitude, or who takes a commission in the profits of the company or is in any other vocation.

13. Banks are not allowed to make loans on their own shares, or grant unsecured loans to directors, or to firms in which a director is interested.

14. A banking company shall not form a subsidiary company except for purposes incidental to the business of banking.

15. Vast powers have been given to the Reserve Bank to control the entire banking system. It can mould lending policies, prohibit transactions, call for periodical as well as ad hoc returns and publish them. It may inspect any bank, and the Governor may even suspend the Act for 30 days in an emergency.

16. The Reserve Bank is to make an annual report to the Government on the trend and progress of banking in the country with suggestions for improvement.

17. An expeditious procedure for winding up and liquidation of banking companies was laid down, and the Bank has been given powers in respect of their amalgamation.

The Act has laid the foundations of healthy banking system in the country. The vast powers vested in the Reserve Bank of India have been judiciously used. Since the passing of the Act, there has been an unmistakable improvement in the working of the banking system of the country. Some amending Acts followed.

The Banking Companies (Amendment) Act, 1950

In 1950 the Banking Companies Act was amended to correct

faults which came to light in its working. Amalgamation can take place only if a requisite majority of the shareholders of a bank approve of it and it is then sanctioned by the Reserve Bank. Compensation is provided for dissenting shareholders. Special provisions for speedy winding up of banking companies have also been included.

The Reserve Bank of India (Amendment) Act, 1951

The main provisions of the amending Act are: (1) The Reserve Bank of India Act, 1934, is extended to the whole of India except Jammu and Kashmir. (2) The eligibility for rediscount of commercial paper by the Bank under Section 17 is extended to bills bearing the signature of a State Co-operative Bank. (3) The period of maturity of agricultural bills, eligible for rediscount by the Bank, is extended from 9 to 15 months. (4) The restrictions on the holding by the Bank of Government securities as regards amount and maturity are removed. (5) The Bank is authorised to act as an agent for any foreign Government or person approved by Government. (6) The weekly returns furnished by scheduled banks will include figures of their investments; such returns will be submitted not later than 5 days after the date to which they relate ordinarily, and in exceptional cases to 10 days. (7) The Bank may exempt any bank from the provision of maintaining statutory balances with it, or submitting returns as it may think fit. (8) The Bank's power to obtain returns is extended to all State Co-operative Banks.

The Reserve Bank of India (Amendment) Act, 1951, placed the State Co-operative Banks on the same footing as scheduled commercial banks in regard to the purchase, sale and discount of bills and notes arising out of bona fide trade transactions. The Reserve Bank (Amendment) Act, 1952, liberalised the scope of short-term credit to State Co-operative Banks and State Financial Corporations for financing production and marketing of cottage industry products. It enabled the Bank to grant medium-term credit to Co-operative Banks up to 5 years and to give a short-term credit to the Industrial Finance Corporation of India.

Banking Companies (Amendment) Act of 1953 laid down methods of procedure to expedite, to simplify, and to reduce costs of liquidation proceedings of banking companies.

The Banking Companies Act was amended again in 1956 to prevent certain undesirable tendencies in administration. The Act vests wider powers of control and supervision in the Reserve Bank. The interlocking of directors is sought to be controlled more stringently and it permits Reserve Bank to appoint observers on the Boards of Directors and to issue directions in regard to matters of policy and administration in the national interest or in the interests of the institutions themselves. The Reserve Bank has been empowered to obtain statements and information over a wider range than hitherto. The appointment and the terms of appointment of the chief executive officers of

the Bank such as managers or managing directors has been made subject to the prior approval of the Reserve Bank.

The Banking Companies (Amendment) Act, 1960, seeks to facilitate expeditious payments to the depositors of banks in liquidation. Legislation has also been passed facilitating the reconstruction or amalgamation of weaker banks with other units. It also enables the Reserve Bank to extend medium-term credit to State Financial Corporations and other financial institutions. It is now authorised to act as agent of the Central Government in implementing the scheme for guaranteeing loans to small-scale industrial concerns advanced by the banks and other financial institutions.

The Banking Companies (Amendment) Act, 1962

The main purpose was to increase the capital resources and improve the financial position of banking institutions. This will mean greater protection to depositors and better banking services for the community. Among the new provisions are: (a) The banks are to continue transferring 20% of the balance of their profits to the reserve fund even after it equals the paid-up capital (prior to this such transfer was to stop as soon as the reserve had become equal to the paid-up capital). (b) The amendment also raised the maximum paid-up capital in the case of an Indian banking company commencing business to Rs. 5 lakhs as against Rs. 50,000 fixed in 1936. (c) The amendment provides that all banks should maintain at the close of business on any day a minimum amount of liquid assets equal to not less than 25% of their total demand and time liabilities in India; this is exclusive of the balances maintained by the banks with the Reserve Bank. (d) To replace the existing dual cash ratios (i.e., 5% of demand and 2% of time liabilities) by a single ratio of 3% in respect of both demand and time liabilities. This would increase the overall liquidity ratio from the existing 20% to 28% (3% of cash reserves and 25% of liquid assets). (e) To extend the Reserve Bank's powers to vary the cash ratio from the minimum requirement of 3% to 15% of the aggregate liabilities. This replaced the earlier provision which enabled the Banks to raise their statutory balances to a maximum level of 8% of time and 20% of demand liabilities. (f) To vary the overall liquidity ratio up to a limit of 40%. (g) It empowers the Reserve Bank to purchase, sell or rediscount export bills maturing within 180 days (instead of 90 days as hitherto).

In December 1963 was passed the **Banking Laws (Miscellaneous Provisions) Act.** The main objective of the new legislation was to enhance the Reserve Bank's powers over commercial banks as well as to regulate the acceptance of deposits by non-banking companies or financial institutions from the public and the conduct of business of financial institutions. Thus, the amending act provides further powers to the Reserve Bank to ensure stricter supervision and control over commercial banks and in particular (a) to restrain control exercised by particular

groups of persons over the affairs of banks, (b) to restrict loans and advances as well as guarantees given by banks on behalf of any one company, firm, association of persons or individuals, (c) to give greater control to the Reserve Bank over the appointment and removal of banks' executive personnel, and (d) to reduce the maximum voting rights of individual shareholders of banking companies including subsidiaries of the State Bank from 5 per cent to 1 per cent of the total voting rights of all shareholders, so that the control may be diffused among the shareholders.

The amending Act also invests the Reserve Bank with powers to regulate the activities of non-banking financial institutions accepting deposits from the public. The existing legislation relating to banks did not provide for any control over companies or other institutions which, though not treated as banks, accept deposits from the general public or carry on other business allied to banking. More recently, the volume of deposits accepted by them has been growing steadily and the rates of interest offered by these institutions were comparatively high. It was not possible to gauge the extent of deposits collected by them and there was a need for ensuring adequate protection to depositors. The amendments to the Reserve Bank of India Act empower the Bank to regulate or prohibit the issue of prospectus or advertisement by non-banking institutions soliciting deposits from the public, to call for returns and information relating to deposits from such institutions, to give them directions in regard to receipt of deposits and to prohibit acceptance of deposits by any such institution which fails to comply with its directive. The Bank may also call from financial institutions information regarding their paid-up capital, reserves, or other liabilities, investments, terms and conditions of their advances, etc., and give directions to such institutions relating to the conduct of their business. The Bank is also empowered to inspect any non-banking institution and its books and accounts.

Bill Market Scheme

The lack of bill market had long been felt in India. Such a market is necessary both to provide the banking system a reasonable opportunity to invest their short-term funds and also to impart due elasticity to the credit structure. This would enable it to expand during the busy season and contract during the slack season. In the absence of such credit elasticity, the money market is subject to alternating spans of tight and easy conditions. Thus businessmen found cash credit system a very convenient alternative and consequently the bill market did not develop.

The Bill Market Scheme was introduced in 1952 when the Reserve Bank laid down that it would make advances to scheduled banks against their promissory notes supported by usance bills or promissory notes of the clients. Banks were permitted to convert

a part of the borrowings of clients into usance bills for 90 days which they could lodge with the Reserve Bank as collaterals. To popularise the bills, the Bank agreed to make advances at ½% below the Bank rate and also to bear half the Stamp Duty. The minimum value of the individual bill was fixed at Rs. 1 lakh each, while the minimum limit for a single advance to a bank was fixed at Rs. 25 lakhs.

In July 1954, the scheme was further extended to all licensed scheduled banks, irrespective of the size of their deposits. The minimum limit of advances was reduced from Rs. 25 lakhs to Rs. 10 lakhs (Rs. 5 lakhs since 1957) and the minimum amount of each individual bill was lowered from Rs. 1 lakh to Rs. 50,000. Banks are availing themselves of the facilities under this scheme more and more. Advances of Reserve Bank to scheduled banks against usance bills and/or promissory notes amounted to Rs. 47.59 crores in 1963-64 against Rs. 27.43 crores in 1955-56. Greater elasticity and autonomy have been lent to Indian money market as a result of the working of the bill market scheme. In 1958, the Bill market scheme was extended to export bills. This was done to widen the credit facilities available to the banking system for the purpose of financing exports.

With a view to making the scheme popular, some modifications were made with effect from January 12, 1961. For instance, the minimum amount of individual usance promissory notes to be lodged with the Reserve Bank as security for advances has been reduced from Rs. 10,000 to Rs. 5,000.

In September 1962, the Reserve Bank of India Act was amended so as to enable the Bank to purchase and rediscount export bills maturing within 180 days.

The scheme may, however, be criticised on the following grounds: (i) It does not develop a bill market proper since it is based not on genuine trade bills but on the conversion of loans and advances of scheduled banks. (ii) The scheme does not extend to indigenous bankers. Until their **hundis** are accepted for rediscounting, the proper bill market cannot develop. (iii) In spite of the concessional rate of interest charged and the concession in stamp duty, the scheduled banks find it costly and inconvenient to convert their demand bills into usance bills. (iv) It is permissive and not obligatory for the Reserve Bank to grant accommodation against approved usance bills. There is a scope for discriminatory treatment by the Reserve Bank of the borrowing bankers. This militates against the creation of a well-co-ordinated bill market.

Reserve Bank's Control over Banks

The Reserve Bank has at last secured powers on a statutory basis to regulate banking. The 1949 Act as amended in 1957 enables it to eradicate defects in the banking system such as the existence of a very large number of small banks, their crowding

in the major cities and towns and the high risks they take in their investments to earn large profits.

It can now direct the lending policy of banks and thus control the purpose of loans, the margins to be maintained, and the rates of interest. It can inspect the banks, supervise the Board of Directors as well as call for returns and may, if necessary, recommend the prohibition of fresh deposits. These powers have been styled sweeping by some critics. But in view of the frequent banking failures in India and the many heterogeneous elements in its monetary structure as well as the need to adapt the banking structure to requirements of economic development under the Five-Year Plans, such a piece of legislation was long overdue. Such critics should remember that the whole world is progressing towards overall planning. When giving these powers to the Reserve Bank, the Act of 1949 also placed heavy responsibilities on it, which can only be discharged when all banking companies give full co-operation to the Reserve Bank.

The Amending Act of 1956 gave Reserve Bank the power to vary the reserve which the Scheduled Banks are required to maintain with it in respect of time and demand liabilities up to 8% and 20% respectively. The Bank can also ask for compulsory deposits with it in respect of all **additional** deposits **after a date** subject to the overall limits of 8 and 20 per cent. According to an amendment of 1962, all banks have to maintain at the close of business on any day a minimum amount of liquid assets equal to not less than 25% of their total demand and time liabilities.

The main duties imposed upon the Reserve Bank in respect of other banks may then be classified as below:

(a) **Supervision and Inspection of Books.** The Bank was already performing this important duty, but now it is empowered to inspect banks **at its own initiative**. The Bank has now an organisation for annual inspections. The object is to help banks to establish sound banking traditions by pointing out defects. As a result of systematic inspections, the standard of working of banks has greatly risen. Monthly and quarterly reports are called for wherever defects are found. Necessary conditions too are imposed if needed and appointment of banking advisers has been insisted upon to advise banks.

(b) **Licensing of Banks and Control over Branch-banking.** The Reserve Bank issues licences to an existing company only after satisfying itself that the company is in a position to pay its depositors in full as their claims accrue. It also makes sure that the affairs of the company are being conducted correctly. Besides, no banking company can open a new branch without prior permission from the Reserve Bank.

(c) **A court can sanction a scheme of arrangement, only after the Reserve Bank certifies** that it is in the interest of depositors.

(d) **Liquidation of Banking Companies.** The Reserve Bank can be appointed as the official liquidator of a banking company.

(e) **Receipt and Scrutiny of the Prescribed Returns.** The prescribed returns submitted by the banking companies to the Reserve Bank are scrutinised to see that the instructions are being complied with.

(f) **Advising Banks and helping them in times of emergency.** The Reserve Bank has been doing valuable work in this direction. The Reserve Bank advised all banks not to grant any advances for speculation after the devaluation of the Indian rupee.

During the course of its study of the operations of banks, the Reserve Bank has come across unhealthy developments, e.g., large advances against immovable property, or against inadequate security or indiscriminate branch expansion, interlocking of funds, attempts to secure control for industrial undertakings, manipulation of figures to conceal the true financial condition of the bank, keeping of low ratio of cost to deposits, etc. The Reserve Bank has in all such cases taken action to rectify them.

In order to stem speculation and restrain inflationary forces, the Reserve Bank has, in recent years, brought into play a wide range of credit controls. A general restriction on the quantity of credit was sought to be operated through raising the cost of borrowing by banks from the Reserve Bank. The Governor of the Bank has been issuing directives from time to time asking the banks to restrain or reduce credit during a certain period. In addition to these general measures of control, selective restrictions on credit were also imposed, i.e., relating to advances against selected commodities.

In a circular letter sent towards the end of February 1959, the Governor of the Reserve Bank again asked the banks to exercise restraint on the further expansion of credit during the current busy season. The letter says: "The Reserve Bank Governor concedes that it is the legitimate function of banks, and in effect, their duty to finance the movement and marketing of crops and industrial production, including building up of normal stocks, but the use of credit for speculative purposes is likely to have an unhealthy effect on the economy."

Wherever the Banking Companies Act has been found defective, amendments have been introduced to remove them. Thus the Reserve Bank today is in a position to guide and control Indian banking well. This has put our banking structure on a sound footing.

Exchange Banks

Exchange Banks constitute another member of Indian money market. There are nearly 15 Exchange Banks in India with about 60 branches running in important towns and Delhi. These banks are incorporated outside India. They were not subject to the provisions of the Indian Company Law previously, but the new banking legislation has authorised the Reserve Bank to control their operations.

The private deposits of these banks have grown up considerably while their cash balances in India have not grown at the same pace. But since the Indian Banking Companies Act applies to them, they are maintaining a correct ratio of cash to liabilities with the Reserve Bank, plus an excess balance.

Two of these banks, Thomas Cook and Sons[1] and the American Express Company, are mostly concerned with tourist traffic. Of the rest, 3 have considerable business in India while the others are agencies of bigger banks, a larger portion of whose business is outside India. The names of five big Exchange Banks are Lloyds Bank, the Chartered Bank of India, Australia and China, the National Bank of India, the Mercantile Bank of India and the National City Bank of New York.

Their Functions

(a) They finance the foreign trade of India. It is a remunerative business—the total volume of foreign trade in India in 1958-59 was provisionally put at 1,622 crores. It has been estimated that only 15 per cent of the foreign trade is financed by Indian banks, whose share merely consists of the movement of commodities to the port towns from where the financing to foreign countries is arranged by the Exchange Banks.

(b) The Exchange Banks raise deposits in India and also help in financing the internal trade of India to a considerable extent. These deposit liabilities amounted to Rs. 197 crores in March 1958 against total loans and advances of Rs. 164 crores in India in the same month and year.

The Exchange Banks buy Indian export bills usually maturing after three months. These bills are almost always Documents on Acceptance (D.A.). They are sent immediately to London and are discounted there at the low prevailing rates. In order to transfer their funds back to India, the banks adopt various plans such as (i) selling sterling to the Reserve Bank in London, (ii) buying rupee paper in London and selling it in India, (iii) supplying the needs of tourists and students in England on receipt of rupees in India, and (iv) importing bullion into India for sale.

The bulk of India's export trade from Europe is financed by 60 days' bill known as Documents on Payment (D.P.). They are discounted in London and sent to India for collection through the Exchange Banks. The peculiarity of D.A. bills is that the moment the bill is accepted by the foreign importer through his bank, he can obtain possession of the goods, while he may make the payment at the maturity of the bill. This is obviously a great advantage. The D.P. bills do not entitle the Indian importer to the immediate possession of the goods. He, therefore, executes a trust receipt in favour of the Exchange Bank, thus holding goods as a trustee of the bank till he makes the payment. He pays interest

1. Its business in India has been amalgamated with that of Messrs. Grindlay and Company.

at the rate of 6 per cent for this period. So long as the Indian import trade is not financed by D.A. bills in rupees and discounted in India, a proper discount market cannot be developed here.

The foreign exchange banks, thus, dominate the foreign trade of India and have a share in her internal trade also. Till 1949, they were not amenable to Indian laws. They were controlled by foreign directors and did not publish any information regarding India affairs. Since the enactment of the 1949 Banking law, the Reserve Bank has secured control over the reserves the exchange banks are to keep in India. The position has, therefore, changed for the better in this respect. They are also required to employ Indians in responsible positions.

We may, however, notice recent developments in this connection. More and more Indian joint-stock banks are opening offices or securing agents outside the Indian Union. There are nearly 100 offices of Indian banks in foreign countries. The main obstacle in the way of Indian joint-stock banks taking up this business has been the difficulty of opening branches and working them successfully in foreign countries. There are political and currency complications. A branch in a foreign country needs huge capital, great experience and prestige to attract funds. Pakistan is now a foreign country. Hence branches of banks which were once Indian became foreign after the Partition in 1947. The Bank of Baroda, Bank of India, the Indian Overseas Bank, U.C. Bank and the State Bank of India have the largest number of agencies and correspondents in foreign countries.

An interesting feature revealed by the statistics is that the Indian banks abroad maintain a higher ratio abroad than in the Indian Union. Since the Partition, Indian banks are venturing abroad, but still they have not got a sufficient share in the financing of foreign trade.

The Government of India has established a State Trading Corporation which will create needed contacts in foreign countries.

With the passing of the Indian Banking Companies Act of 1949, the Reserve Bank can now ask the exchange banks to toe the line with other banks. The following regulations in this Act protect the Indian depositors:—

1. In the case of a bank incorporated outside India, the total value of reserves to be kept in deposit with the Reserve Bank shall not be less than Rs. 15 lakhs and if it has a place of business in Calcutta or Bombay, Rs. 20 lakhs.

2. Deposits with the Reserve Bank of such a bank shall in the events of its closing business in India be an asset on which the claims of creditors of the banks shall be a first charge.

3. The assets in India of every such banking company at the close of the last working day of every quarter shall not be less than 75% of its demand and time liabilities therein.

4. At the end of every calendar year, every such company shall prepare an annual balance sheet and profit and loss account in respect of its business in India. This balance sheet will be properly audited and published.

The Banking Act has thus laid down necessary restrictions on foreign banks.

State Bank of India

For a long time, the need for a strong central bank was keenly felt. The first serious effort towards this objective was made in 1921 when the three Presidency Banks were amalgamated into the Imperial Bank of India. It remained a private concern, but was meant to serve the State too. Hence its operations were restricted by law and its management controlled by Government. Its huge resources gave it the position of a leader in the Indian money market. It had large Government deposits on which it paid no interest. Its business was circumscribed within the bounds of safety by law. It, therefore, wielded vast power in Indian banking credit and commerce.

The Bank undertook all the banking business of the Government, such as accepting deposits and holding balances and providing funds. It also managed the public debt. It remitted funds and advanced 'ways and means' loans. It also served as a bankers' bank, as most commercial banks kept cash balances with it. It managed the Clearing House, settling cross claims of banks. As the Bank had to undertake Government business, its operations were carefully regulated. Thus it was not allowed to make loans for more than 6 months, or against immovable property, or against its own shares. It was debarred from dealing in foreign exchange business except for the bona fide needs of clients. It could not lend money on personal security.

Constant complaints on the basis of unfair competition were made against the Bank. It was further asserted that the bank discriminated against Indian firms. That Indianization was not quick enough and the direction of its affairs remained in European hands was a just charge. The most serious charge against the Imperial Bank was that it could not reduce the variations in money rates in different places or seasons. The commercial character of the Imperial Bank could not possibly co-exist with its State Bank character. It earned high dividends by its commercial operations, a true central bank would not have been allowed to do so, nor would it have entered into competition with ordinary banks. The privileges granted to the Imperial Bank were also the subject of severe criticism, although a great deal of its criticism was of a political nature.

It must, however, be said to its credit that it helped to spread banking facilities all over the country. It opened branches in places where no bank had any branch before. It willingly helped some banks in difficulty, e.g., the Alliance Bank of Simla. It served as a Clearing House wherever it had a branch.

With the inception of the Reserve Bank in 1935 the Imperial Bank lost its status of a partial State Bank. The old restrictions on the bank's operations were removed. It could now freely deal in foreign exchange, open new branches and borrow money outside India. It was also permitted to lend against immovable property. It was, however, selected to act as an agent for the Reserve Bank on an agreed commission basis. This brought it an income of several lakhs every year. Thus it had vast resources. It was the leader of the money market and as such maintained a high ratio of cash to its deposits. For various reasons, there was a great demand that it should be nationalized.

Accordingly the Imperial Bank was converted into the State Bank of India on 1st July, 1955, on the recommendation of the Committee of Direction for All-India Rural Credit Survey.

Constitution

It has an authorised share capital of Rs. 20 crores and an issued capital of Rs. 5·625 crores which has been allotted to the Reserve Bank in lieu of the shares of the Imperial Bank transferred to it. The fully paid shares of the Imperial Bank were paid off at the rate of Rs. 1,765-10 and partly paid shares at Rs 431-12-4. The new shares of the State Bank were issued at Rs. 350 for every fully paid share of Rs. 100.

The State Bank may, with Government's sanction, acquire the business of other banks including State-associated banks after paying compensation and will hold at least 55% of the issued capital of such State Bank.

Functions

(a) It provides credit to industry, trade and commerce as before.

(b) It assists banking on vigorous lines.

(c) It will open 400 branches within a period of 5 years.

(d) It will provide larger remittance facilities and attempt to mobilise available Rural Savings.

(e) It will be a powerful agency for enlarging the supply of rural credit and develop co-operative marketing and warehousing.

The State Bank of India is part of the Integrated Scheme for Rural Credit and is expected to develop co-operative credit and co-operative marketing in rural India in addition to strengthening banking in general. Since its inception on July 1, 1955, up to July 1960, the State Bank opened 416 branches of which about 350 were opened in rural areas. It thus honoured its commitment of opening 400 branches in the first five years of its career. At the end of 1963, the State Bank had 1,069 branches and its subsidiaries 568 branches. Over the second phase, July 1960 to June 1965, it was decided to open 300 additional branches in the ratio of 145:155 by its subsidiaries. Subsequently it was agreed to open 319 new

branches within a period of five years from January 1964. Of the 145 branches, the State Bank had opened 70 branches by the end of December 1963 and the subsidiaries 153 branches. At the end of 1963, the bank had in all 1,076 offices which together with the 568 offices of the subsidiaries makes a total of 1,644 offices.

The State Bank provides co-operative banks remittance facilities and such other services as advances against approved securities, Government guarantees, debentures of land mortgage banks, warehouse receipts, etc.

The State Bank Act was amended in 1957 permitting the bank to grant loans and advances in certain cases for periods exceeding six months but not exceeding seven years. Thus the bank is now in a position to grant medium-term credit to industries. It can also now subscribe to the share capital of any financial institution notified by the Central Government. The State Bank of India (Subsidiary Bank) Bill was passed in 1959 which related to the setting up of eight State Associated Banks as subsidiaries of the State Bank.

The State Bank advances are now increasingly industry-oriented without decreasing the quantity of credit made available for trade and commerce. In 1962, advances to industry in relation to total advances accounted for 72.1% which in 1963 increased to 75.1%. About 30% of these advances were utilised by basic industries and about 18% by export-based industries. In the case of small-scale industries, the total credit commitments at the end of 1963 amounted to Rs. 17.6 crores. Facilities offered to small industrialists include medium-term loans and instalment credits. Relaxations have been made in granting accommodation against supply bills drawn on Directorate of Supplies and Disposals. When small units have secured orders from Government, they can obtain further facilities by way of advance payment for purchase of raw materials. To meet the varied requirements of the small entrepreneurs procedure has been simplified, improved and made flexible.

The State Bank has extended further its activities in connection with financing of co-operatives. Total credit limits sanctioned to all types of co-operative institutions increased from Rs. 33.4 crores in 1962 to Rs. 45.2 crores in 1963. The Bank now makes advances to Co-operative Consumers' stores, both primary and wholesale, industrial co-operatives, labour contract and construction co-operatives.

Since the business and activities of the State Bank have expanded considerably since it was established in 1955, the State Bank Act was sought to be amended to enable the Bank to dispose of its business efficiently and expeditiously. Accordingly, the State Bank of India (Amendment) Bill was introduced in December 1963. It seeks to facilitate further delegation and decentralisation. It contemplates the creation of a large number of Local Boards Offices vesting in them certain specific powers.

Reserve Bank of India

After World War I, it was felt that the Indian monetary system was essentially unsound, as currency and credit were in the hands of two different authorities, whose policies were often divergent. Besides, it was felt that the Indian money market lacked cohesion and unity. Every banking unit worked on the principle of 'each for himself, and devil take the hind-most'. The plural system of reserves did not lead to either security of the structure or public confidence in it. The only mechanism that could remedy these defects and mobilize the country's scattered resources was a central banking agency. The Reserve Bank of India established in 1934 as a central bank to remove a big lacuna in the Indian banking system.

Functions of the Reserve Bank: General Functions

There are two types of functions that the Reserve Bank of India performs. Firstly, there are the general banking functions, and secondly, it functions as a central bank. To take the general banking functions first, the Bank is authorised to transact the following businesses:—

(1) to accept deposits **without interest** from the Central and State Governments, banks, local bodies and any person;

(2) to purchase, sell and rediscount at a standard rate published from time to time—

- (a) bills of exchange and promissory notes drawn and payable in India and arising out of bona fide transactions, bearing two or more good signatures, one of which must be that of a scheduled bank, and maturing within 90 days from the date of purchase or rediscount,
- (b) bills, etc., drawn and payable in India for financing agricultural operations or marketing of crops, and maturing previously within 9 and, since 1952, 12 months, and
- (c) bills issued or drawn for holding or trading in securities of the Central or State Governments and maturing within 90 days (180 days since 1962);

(3) to purchase from and sell to scheduled banks sterling in amounts of not less than the value of Rs. 1 lakh, and bills of exchange drawn in or on any place in U.K., and maturing within 90 days and keep balances with banks in U.K.;

(4) to make loans and advances to States, local authorities, scheduled banks and State co-operative banks, repayable on demand or on the expiry of a period not exceeding 90 days against trustee securities, gold or silver, eligible bills of exchange and promissory notes of a Scheduled Bank supported by documents of title to goods pledged to the bank;

(5) to make ways and means advances to Central and local Governments repayable within 90 days;

(6) to issue demand drafts on its own offices or agencies;

(7) to purchase and sell Government securities of U.K. maturing within 10 years of the date of purchase;

(8) to purchase and sell securities of the Central and State Governments of any amount maturing within prescribed limits;

(9) to borrow money for a period not exceeding 30 days from a scheduled bank in India or a central bank in any other country; and

(10) to open accounts with or to make agency agreements with central banks in other countries; to act as their agents and to invest funds in their shares.

Besides, the Reserve Bank has to perform all other functions usually performed by a central bank in any country.

These functions are discussed below.

Central Banking Functions

As a central bank, the Reserve Bank performs many important functions:

(a) **Issue of Notes.** In the first place, the bank has the sole right to issue bank notes in India. For the issue of notes, the Reserve Bank maintains a separate department called the Issue Department, the assets of which are kept distinct from those of the Banking Department. In this respect, it resembles the Bank of England. The assets of the Issue Department consist of gold coin and bullion, sterling securities, rupee coin and rupee securities. Under the latest amending Act, the Reserve Bank is required to keep minimum reserves of foreign securities not less than Rs. 200 crores including gold worth Rs. 115 crores valued at Rs. 62.50 per tola. The Act has also provided for the suspension of the provisions relating to the minimum holdings of foreign securities up to a maximum of Rs. 100 crores. This can be done with the prior approval of the Central Government for a period of six months which can be extended from time to time, but not exceeding three months at a time. Previously, the reserve was kept on **proportional** system but in view of the foreign exchange requirements of the Second Plan, this was changed to that of a fixed minimum.

(b) **Regulation of Banking.** In the second place, the Reserve Bank is required to regulate the banking system. Every joint-stock bank, having a paid-up capital and reserve of an aggregate value of not less than Rs. 5 lakhs, can be included in Schedule 2 of the Reserve Bank. A scheduled bank has to maintain with the Reserve Bank free of interest a minimum balance equal to 5 per cent of its demand liabilities and 2% of its time liabilities (which has since 1962 been replaced by a single ratio of 3% of their total time and demand liabilities) and also to submit a prescribed weekly return. At the end of 1963 there were 79 scheduled banks and their balances with the Reserve Bank stood at

Rs. 141.4 crores. The maintenance of balance has centralised reserves and brought about liquidity and safety.

(c) **Supply of Credit.** The scheduled banks can get financial accommodation against approved securities. They can also rediscount bills of exchange and promissory notes: (i) which are drawn and payable in India, (ii) which bear two or more good signatures, one of which must be that of a scheduled bank, and (iii) which mature within 90 days exclusive of the days of grace from the date of rediscount. Bills drawn for trading in specified Government securities can also be rediscounted if they mature within 90 days. An exception is made in favour of sound agricultural bills, so far as the period of maturity goes, which is allowed to extend up to 15 months. In 1963-64 these banks had jointly borrowed nearly Rs. 47 crores on the strength of 'usance bills' (agricultural bills and promissory notes) and against Government and other approved securities from the Reserve Bank. In addition, they had purchased and discounted nearly Rs. 190.31 and 55.98 crores worth of inland and foreign bills respectively.

(d) **Control of Credit.** The Reserve Bank controls the credit policy of member-banks and through them of the other constituents of the money market. This is done by: (a) raising or lowering its bank rate, and (b) by purchase or sale of Government securities in the open market. The latter process is known as open market operations. A lower bank rate would encourage rediscounting of bills with the Reserve Bank thus increasing the cash with the joint-stock banks, and vice versa. Similarly, purchases of securities by the bank in the open market would increase the cash in the money market, and the sale of securities will have the reverse effect. The Reserve Bank has been undertaking open market operations to meet the seasonal requirements of trade as well as for tightening the control over credit expansion. In May 1957, it raised the Bank rate to 4% and it was raised to $4\frac{1}{2}$% in January 1963 and 6% in February 1965. The Reserve Bank has also been empowered to vary the deposits to be maintained by the scheduled banks with the Reserve Bank. The additional requirements are calculated to improve liquidity position of the scheduled banks. Apart from general credit control, the Bank exercises selective credit control.

As a leader of banking organization, the Reserve Bank has extended facilities in the medium-term finance by assisting in the formation of Refinance Corporation. In the sphere of long-term finance, its help is available to Industrial Finance Corporation.

(e) **Maintenance of the Exchange Rate.** In the third place, the Reserve Bank is entrusted with the task of maintaining the external value of the rupee at 1s. 6d. sterling. To do this it is obligated to sell to any person, who pays the price in rupees, sterling not less than £10,000 in amount, for immediate delivery in London at a rate not below 1s. 5-49/64d. for a rupee, and to buy sterling at a rate not higher than 1s. 6-3/16d. for a rupee.

Moreover, it has to meet the Government requirements of sterling in London for which it buys sterling by weekly tenders or at an intermediate tap rate. The Exchange Banks are enabled by this process to transfer funds conveniently from London to India.

(d) **Government Business.** In the fourth place, the Reserve Bank carries out all banking business, including holding of money free of interest, for Central and State Governments. It has also to carry out their exchange and remittance operations and to manage the public debt.

The remittance facilities provided by the Bank are a very important feature of its operations. To provide these facilities, the Bank maintains funds at all branches of the State Bank of India and at Government Treasuries. The concession rate of remittance was later extended to 52 non-scheduled banks and 10 indigenous bankers who are on the bank's approved list.

(e) **Clearing Houses.** In the fifth place, the Reserve Bank works the Clearing Houses and saves movements of cash from bank to bank. The most important clearing houses are at Bombay, Calcutta, New Delhi, Madras, Kanpur, Nagpur and Bangalore besides nearly 30 others. These are autonomous institutions and so far the Bank has not found it necessary to interfere with their working. The total value of cheques cleared in India during the year 1963-64 came to Rs. 1400.71 crores against Rs. 553.18 crores in 1950-51 and 1045.89 crores in 1960-61. The great increase in the use of cheques shows that the habit of banking is growing in India.

(f) **Agricultural Credit Department.** In the sixth place, the Reserve Bank has an Agricultural Credit Department with an expert staff, the functions of which are: (a) to study all questions of agricultural credit and to be available for consultation to all banks, and (b) to co-ordinate the operations of the Bank, in connection with agricultural credit, with State co-operative and commerical banks. Thus its duties are mainly of an advisory character and it cannot render direct help.

The Department continued to study problems connected with the co-operative movement, land mortgage banks, debt legislation, regulation of money-lending, warehousing legislation, marketing and other cognate matters. The services of the Department are being utilised more extensively than before. The Department has published many brochures on co-operative movement in other countries, as well as conducted detailed enquiries into the working of co-operative movement in some selected States of India, namely, Assam and Bombay.

The Department has taken steps to show that the Reserve Bank's attitude in the matter of accommodation to co-operative banks is very favourable. As a result, the Reserve Bank is being approached more frequently for help. Besides the concessional rate of ½ per cent (which is 2½% below the Bank rate) permissible

under section 17 (2) (b) and (4) (c) to co-operative banks, the concession is also being extended to advances under section 17 (4) (a) subject to the condition that the credit is strictly utilised for seasonal agricultural operations and the marketing of crops. The period of such loans has been extended from 12 months to 15 months.

As a result of the recommendations of the All-India Rural Survey Report, the co-operative agencies for rural credit are being re-vitalized, storage and warehousing facilities as well as banking facilities are being provided in rural areas. A Central Warehousing Corporation has been set up and similar bodies are being set up in the States.

Five National Funds have been created. Two of these, namely, the National Agricultural Credit (Long-term Operations) Fund and the National Agricultural Credit (Stabilization) Fund have been set up under the Reserve Bank of India (Amendment) Act, 1955. The aim of National Agricultural Credit (Long-term Operations) Fund, set up with an initial capital of Rs. 10 crores, is to make long and medium-term loans to State Governments to enable them to contribute to the share capital of co-operative societies and land mortgage banks. The Stabilization Fund is usd to supply medium-term loans and advances to State Co-operative banks to convert their short-term credit into medium-term credit when necessary as a result of drought, famine or other natural calamities.

(g) **Management of Public Debts**. In the seventh place, the Reserve Bank has to manage the public debt of India and to float and buy off loans on behalf of State Governments. Now India's public debt is almost wholly internal. Every year the Central Government and the State Governments float new loans for development and other purposes. Several loans also mature for payment. It is the duty of the Reserve Bank to manage all this as successfully and efficiently as possible.

(h) **Collection of Statistics.** Lastly, the Reserve Bank acts as an agency for the collection and dissemination of financial information and statistics. It submits to the Government a weekly account of its Issue and Banking Departments. Besides, it publishes monthly statistical tables relating to banks in India and an annual Report on Currency and Finance. Under the new Act of 1949, it also submits to Government an annual report on the trend and progress of banking in India, a very useful compilation. It compiles and publishes statistics on co-operative movement and Balance of Payments.

(i) **Training of Personnel.** A Bankers' Training College has been established to impart practical training in banking to the supervisory staff of commercial banks. Arrangements for the training of co-operative personnel have also been made at a number of places. The facilities provided by the Reserve Bank are greatly appreciated.

Achievements of the Reserve Bank

The policy of the Reserve Bank since its inception in 1935 has been directed on right lines and its achievements so far, specially since its nationalisation, have been of no mean order, as is clear from the following review:

(i) The Bank rate, which used to vary between 7 and 9 per cent, was brought down to 3 per cent in 1935. It was raised to 3½% in 1951, to 4% in 1957 and to 4½% in January 1963. In 1964 it was raised to 5% and in February 1965 to 6% only to relieve the inflationary pressure. On the whole, it has been maintained at a steady level. Thus the Bank has succeeded in lowering the general rate of interest in the country.

(ii) The seasonal fluctuations in money rates have been eliminated, while place variations have tended to disappear. The main pressure of seasonal demand, when the crops have to be moved down from upcountry, has been well met.

(iii) The Reserve Bank has introduced very cheap remittance facilities which have been widely availed of by the public scheduled banks, the Government and co-operative societies. Telegraphic transfers issued through the Reserve Bank during 1963-64 amounted to Rs. 4,444 crores as against Rs. 791.6 crores in 1950-51, Rs. 1079.8 crores in 1955-56 and Rs. 2,811 crores in 1960-61.

(iv) The Bank has achieved a remarkable measure of success in the management of the public debt. It repatriated between 1939 and 1955, Rs. 442 crores of sterling debt, out of a total of Rs. 469. crores, funded the railway annuities and made ample provision for the payment of sterling pensions and furlough allowances in England. In addition, it has floated loans for the Central and State Governments at low rates. It has also provided 'ways and means' expenditure through Treasury Bills. Total amount outstanding at the end of 1963-64 was Rs. 1,381.95 crores nearly against Rs. 373 crores in 1950-51 while the total amount sold in favour of the Reserve Bank in this year comes to Rs. 5,248.72 crores.

(v) The Bank has kept the exchange value of the rupee stable at 1s. 6d. in spite of very trying times. For this purpose it undertakes to purchase and sell sterling.

(vi) One of the most creditable achievements of the Reserve Bank has been in respect of the great, though indirect, stimulus that it has given to the development of banking in the country. Its very presence in the money market and control over the banks have led to banking development on sound lines and has inspired the confidence of the public in the banking system. The notable part it played in averting banking crisis in Bengal in 1950 deserves special mention.

(vii) A remarkable achievement of the Bank has been the passing of the Indian Banking Companies Act, 1949 and subse-

quently working it efficiently. It has set up a Department of Banking Operations to administer the provisions of the Act. In 1955, it started regular inspection of banks. Defects which are noted are pointed out and suggestions for rectifying are made and progress report regarding corrective steps taken are called for.

(viii) The Reserve Bank has done valuable work to develop rural credit in India. It maintains a special department to render expert advice regarding co-operative credit. By the Reserve Bank Amendment Act, 1952, the Bank has been enabled to enlarge its scope for lending to the co-operative banks. Courses of training for personnel in co-operative banking have been arranged. Long-term Credit Operations Fund and Credit Stabilization Fund have been established under the Bank to provide long-term and medium-term credit to agriculturists. After the publication of the all-India Rural Credit Survey Report, an integrated system of rural credit was adopted and steps taken to expand rural credit in India.

(ix) As a bankers' Bank, it has got powers to regulate and control operations of scheduled, non-scheduled and foreign banks in the country. It successfully tackled the problems of war finance such as the floatation of loans, the repatriation of sterling debt and the administration of exchange control. Besides, the successful financing of the Five-Year Plans through various devices is another feather in its cap. On the one side, inflation has been controlled, on the other, money and credit have been provided for urgent multi-purpose projects while deficits in balance of payments have been kept under control.

(x) The Bank has done a good deal of research and has for the purpose a department staffed by competent economists and statisticians. It has organized a separate Balance of Payments Division. At its suggestion, statistics of national income, which are an important indicator of economic activity, are being compiled.

(xi) It also issues a monthly bulletin which provides a varied store of facts and figures regarding economic conditions in the country as well as valuable articles on problems of the day.

(xii) It has played an important part in organizing the Industrial Finance Corporation to provide long-term finance to industry. Since 1952, the bank also dispenses short-term credit to the Corporation. It has also organized Refinance Corporation for medium-term finance.

(xiii) In times of stringency in the money market and in the busy season, the bank advances large amounts. This has given needed elasticity to the currency of the country.

(xiv) An event of outstanding importance in 1952 was the introduction of the bill market scheme through which loans are given by the Reserve Bank on the security of usance promissory

notes. This has initiated a bill market in India thus tending to fill a very big gap in the Indian money market. The shares and bonds of the Industrial Finance Corporation, debentures of land-martgage banks and bonds issued under the Air Corporation Act, 1953, are also given the privilege of being treated like Government securities. It has imparted considerable measure of elasticity to the credit system of the country.

(xv) The statistics regarding scheduled banks show that they are maintaining even a lower percentage of cash to liabilities than banks in U.K. and U.S.A. This is all due to the efficient guidance, supervision and control of the Reserve Bank of India.

(xvi) **The Control of Credit.** The recent policy of the Bank for credit restrictions and monetary discipline has been a major factor in controlling inflation in the country. The rise in the Bank rate and the Bank's declaration that it would not buy Government securities for financing seasonal requirements of banks have had the desired result of reducing prices. The credit and monetary policy of the Reserve Bank was governed by two considerations of assisting a growing economy and restraining inflationary pressures. The policy was one of controlled expansion. It raised the lending rates but made discriminating purchases of Government securities

General Credit Control. For purposes of general credit control, the Bank has been relying mainly on the three-tier system of rates on scheduled banks" borrowings and higher rates enforced on lendings by banks in October, 1960. In February, 1965, the Bank rate was raised by 1% to 6%. This was a second increase within four months. Simultaneously the Reserve Bank announced an increase from 9% to 10% in the ceilings on the rate for advances, overdrafts, discounts. Higher ceilings were also set on deposit rates for short-term deposits. It also prescribed a minimum rate of 4% for savings. These measures sought to induce caution among banks in resorting to central bank credit, as also to curb non-essential borrowings from banks.

The Bank has, however, operated its general credit control in a flexible manner with adjustments so as to meet the credit needs of the specific sectors. Thus the bank expressed its willingness to sanction larger limits to banks under the Bill Market Scheme on bills by sugar and jute mills. Similarly, with a view to encouraging banks to afford increased assistance to small-scale industries and co-operative sector, the basic quota allowed to each bank for borrowings at the Bank rate was enhanced by an amount equivalent to increase in the average of their loans to small-scale industries and co-operative institutions. This scheme came into force in January 1962.

Selective Credit Control. Apart from measures of general credit control, the Bank for the first time in May 1956 made use of selective credit controls. It issued directive to banks to refrain from excessive lending against foodgrains, sugar, groundnuts and

shares. The selective credit controls are operated with suitable modifications in the light of the demand and supply position of the controlled commodities. In operating selective credit controls, an attempt is made to ensure that banking expansion is not hindered.] Accordingly, provisions of the Bank directive were relaxed in favour of offices of banks opened after January 1, 1958.

The Bank follows an active monetary policy adapted to the changing tempo of the economy. For instance, with a view to restraining the excess monetary demand in the economy, the credit restraint measures were intensified in May 1960 by raising the additional reserve requirements and later in September through the system of slab rates and also through a directive requiring the banks to step up their lending rates. But later with a view to easing the pressure of seasonal stringency, the Bank relaxed these measures. Thus these controls are exercised in a flexible manner.

Anti-inflationary measures. On March 11, 1960, the Reserve Bank unleashed four monetary weapons from its anti-inflationary armoury. Immediately the fall in the share market reflected the restraining influence of the four-pronged credit squeeze. Among other things, 25% of the additional bank deposits was to be impounded. The scheduled banks were required to maintain with the Reserve Bank additional reserves equivalent to 25% of the increase in their deposits over and above the minimum statutory reserves, i.e., 5% against demand deposits and 2% against time deposits. The Reserve Bank would of course pay interest on these extra deposits to compensate the banks. From May, the additional reserve was raised to 50% of the increase in deposits. The immediate effect was to slacken the rate of credit expansion. Also, the minimum margin requirement for bank advances against equity shares was raised to 50%. This was done to ensure effective implementation of the already prevailing selective credit control measures. Substantial inquidity of the banking system, the marked expansion of money supply and bank credit and their impact on the price level had been a cause of anxiety and led to the adoption of these measures. The improvement in the supply and price situation led to the relaxation of some of these controls in 1962.

The soaring prices in India have been causing grave concern to all concerned, the Government and the public. The real cause of a continuous and steep rise in prices is an imbalance between the rate of monetary expansion and real output growth. The expansion in money supply at a rate well ahead of the increase in real output, which marked the first three years of the Third Plan, is particularly sharp in the last year. With a view to correcting this imbalance the Reserve Bank raised on the 25th September 1964, the Bank rate from 4½% to 5%. The Reserve Bank also simultaneously introduced a more orderly deposit rate structure to make the long-term control deposit rates more attractive. This was calculated to assist deposit mobilisation. The present narrow spread between the interest rates on short and long-term deposits were not conducive to the process of deposit mobilisation.

In addition the èxisting mechanism of credit control is being modified. Hitherto the borrowings of scheduled banks from the Reserve Bank were being regulated through a system of quotas. The Reserve Bank has now (September 1964) decided to introduce a system under which the cost of commercial banks' borrowings from the Reserve Bank will be linked to the actual level of credit extended by the commercial banks in relation to their own resources. Thus, the emphasis will be on increased cost, rather than a direct restriction of the availability of credit from the Reserve Bank, to secure the needed restraint. In this way, genuine productive requirements of the economy will not be affected. The new system is intended to ensure economy in the use of Central Bank rediscount facilities through a higher interest rate structure.

(xvii) An official credit information bureau, at the headquarters of the Reserve Bank in Bombay, has been set up to advise the banks on consolidated banking commitments of their borrowers. This will enable the banks to detect excessive borrowing by individuals, enterprises or industries. It will be a milestone in the development of a healthy credit structure in the country's economy. It will also serve the dual purpose of indirect control on credit structure by the central banking authority and of ensuring safety of funds of banks. It will prevent a customer from overtrade or from bolstering up an unstable position by borrowing over a wide field and using some credits to repay other borrowings which have been outstanding over a long period. Every bank would know the extent of a borrower's overall indebtedness. Such credit information bureaux are functioning in several European countries particularly in France.

Where the Bank has failed

The achievements mentioned above are no doubt creditable. But there are a number of tasks undone and expectations unfulfilled by the Bank. A few errors of commission can also be laid at the Reserve Bank's door:

(i) The most serious failure of the Bank has been that the indigenous and the modern sectors of the money market have not yet been linked together. It is not yet in a position completely to control the credit situation in the country since the indigenous system remains outside its influence. It is not merely a question of extending its hold on the indigenous part. But the seriousness of this failure arises from the fact that the indigenous banking system (which preponderates in the credit system of the country), cannot avail of greater and cheaper facilities of rediscount, remittance and loans from the country's central bank.

(ii) Till the end of 1951, the Bank failed to develop for financing trade and industry, the use of bills which are the best method indeed for the purpose. A beginning in the development of a bill market was, however, made in January 1952.

(iii) A very serious fault that can be found with the bank is the passive and surrendering role which it played in the financing of the War. It became a willing tool in the hands of the foreign government with the result that the country was plunged into serious inflation.

(iv) The Bank has not taken any concrete steps towards starting an Indian exchange bank. The monopoly of the foreign exchange banks continues, much to the detriment of Indian interests.

(v) The bank cannot also escape criticism for its passive and rigid attitude to the failure of banks in the country in the early years of its life. The failure of the Travancore and Quilon Bank is a case on the point. Now the Bank is fully alive to its responsibilities in this connection.

(vi) However admirable the research conducted by its Agricultural Credit Department, concrete achievement in respect of improving agricultural credit has been negligible. Only in recent years it has done something in this connection under the Integrated Scheme of Rural Credit recommended by the All-India Rural Credit Survey Committee.

(vii) The Reserve Bank has not succeeded in keeping stable the internal value of the currency unit. This is admittedly an important function of a central bank. The reason for the failure of the bank in this direction was that the Indian money market was not one organism. Besides, India was not a free country till recently. Thus while the U.K. avoided inflation and higher prices, India was saddled with inflation and sterling assets. The bank was helpless and failed to bring down prices.

In spite of the above unfulfilled expectations and errors of commission, the achievement of the bank made a very impressive and convincing reading. The bank has truly followed national and constructive policy after the country became independent. Now that the bank has been nationalised as well as vested with greater powers, we may look forward to a further career of still greater service in the cause of country's economic advance. Its recent performance, particularly relating to credit and banking regulation, control of inflation, promotion of a bill market, and improvement of rural and industrial finance, is very creditable. We can conclude by quoting Jather and Beri: **"The actual working of the Reserve Bank justifies the claim that it inaugurated a new era of financial stability, banking reforms, and extension and reorientation of the money market."**

Shortcomings of the Indian Money Market

Since the establishment of the Reserve Bank and the passing of the Banking Companies Act of 1949, the banking system in the country has been improved and strengthened in several respects. All the same, the following shortcomings of the Indian money market may be noticed:

(i) The most obvious shortcoming of the Indian banking system is its utter inadequacy. For a country of the size and population of India, the number of banks and other credit institutions is ridiculously small.

(ii) The banking development is also very uneven. A large number of banking offices is concentrated in big towns and the rural areas are particularly devoid of modern banking facilities. At the end of 1958 only 180 banking offices were in places with a population of below 5,000.

(iii) The Indian banks are comparatively much smaller in their working capital. There are only 79 scheduled banks (1963), i.e., banks having a paid-up capital of 5 lakhs and over. The State Bank, the biggest of the Indian scheduled banks, has only 1/3rd of the deposits of the National Provincial Bank which is the smallest of the big five banks in U.K. The per capita deposits are also very low—Rs. 23 against the equivalent of Rs. 2,923 in U.S.A., Rs. 1,505 in Australia and Rs. 97·3 in U.K. This disparity is much greater than the disparity in per capita national income of the countries concerned.

(iv) The Indian banking system is not a diversified system Almost all banks are of the same type, i.e., commercial banks. There are no industrial banks (some corporations have been set up in recent years), no adequate facilities for agricultural finance (and the country is primarily and predominantly agricultural), no foreign exchange bank, no municipal saving banks, etc.

(v) The whole banking system is split up into fragments lacking co-ordination. The rest of the Indian joint-stock banks are very jealous of the privileged position of the State Bank and the vast resources of the foreign exchange banks and suffer seriously owing to their competition. The absence of close link between the indigenous and modern banking is particularly serious, because in its absence adequate rural credit facilities cannot be provided.

(vi) The working of the various parts of the banking system is also far from satisfactory. While the defects of the indigenous part are innumerable and obvious, the modern part is also not free from shortcomings (these defects have been mentioned earlier).

(vii) The cash credit system is the basis on which credit is created in India and the use of bills is not common. The result is that the credit is costly and the money market lacks liquidity and elasticity. This is so because finance is not available by means of instruments which the

banks can conveniently convert into cash and thus strengthen their financial position.

(viii) A very serious defect of the banking system is that it is not fully amenable to credit control by the Reserve Bank. By far the larger part (viz., the indigenous part) lies outside the sphere of Reserve Bank's control. Over the modern part too credit control is not completely effective.

Some of the flaws have been removed recently by the Reserve Bank. Bank credit has greatly expanded. An efficient machinery has been established for credit control. The policy in regard to the financing of seasonal requirement has changed. Thus the control of the Bank over credit expansion has increased and credit inflation checked. Above all, steps have been taken to create a bill market.

There are, no doubt, a number of banks whose working needs improvement, but, on the whole, the banking system is sound. Post-war banking legislation has greatly strengthened the Indian banking structure. The Reserve Bank has now an intimate knowledge of the working of commercial banks. Steps have also been taken to provide more credit to co-operative banks as well as to establish apex co-operative banks in States where they did not exist.

As a result of powers acquired recently, the Reserve Bank can control the money market fairly effectively. During the last few years, it issued a number of directives to scheduled banks to desist from credit expansion against specified commodities. It can also vary the reserves maintained with it. Through open market operations and the bank rate, it can control the bank credit. The Reserve Bank is in a position to ensure operational efficiency and integrity of commercial banks.

Although there are a few weak spots, the Indian Banks are sound and vigorous from the point of the safety of deposits. Among the problems which still require consideration relate to the adequacy of capital and reserves, strengthening of the capital base and insuring that the additional capital was as wisely held as possible, lack of expeditious legal process against guilty managements and adequate training facilities for the staff. There is also a paramount need for rationalisation by eliminating uneconomic or weak units and establishment of sound banking traditions. With the rapidly increasing deposits, the percentage of capital and reserve to deposits had dropped to a dangerously low level (3.96% in 1959). This requires serious thought. The setting up of the Deposit Insurance Corporation in 1961 is a great step forward. It will infuse confidence in the depositors and foster banking habits among the people. It will cover deposits not exceeding Rs. 1,500.

Recent Trends in Banking

During World War II and the immediate post-war years, the Indian joint-stock banking made rapid progress on account of inflationary situation, cheap money conditions and lack of adequate supervision and control. There was a phenomenal increase in the deposits and the number of banking offices. But the development was only quantitative and not qualitative since a number of defects had cropped up in the banking system, e.g., the defective lending and branch banking policy, absence of liquidity of assets, monopoly control, undesirable manipulation of accounts, etc.

The Partition and its aftermath gave Indian banking a temporary setback. Those banks which were operating in areas now in Pakistan were very adversely affected. They had to close down their offices leaving the assets unrealised. A number of these banks had to suspend payment. However, the banking system as a whole weathered the storm successfully.

As for individual trends, the number of scheduled banks has remained almost steady since 1947 (94 at the end of 1951, 89 in 1956, 93 in 1958, 94 in 1959, 94 in 1960, 83 in 1962 and 79 in 1963). The number of non-scheduled banks has, on the other hand, steadily declined from 425 in 1952 to 354 in 1956 and 290 in 1958, 249 in 1960 and 213 in 1962. The number of banking offices also fell for some years: 1946—4,886, 1947—4,819, 1950—4,310, 1953—4,021. The decline has been specially marked in the case of non-scheduled banks: 1946—2,029, 1950—1,545, 1955—1,247, 1957—1,112, 1958—981, 1959—925 and 1960—885. This is due to the fact that some banks have been declared to be non-banking companies in terms of the Banking Companies Act of 1949.

The amalgamation of banks was another cause of a fall in the number of banks. In recent years, however, there has been steady increase in the number of bank offices of the scheduled banks. It increased from 2,646 in 1951 to 2,838 in 1955, 2,953 in 1956, 3,263 in 1957, 3,619 in 1958, and 4,141 in 1960. The total number of offices of both scheduled and non-scheduled banks rose to 5,271 in 1962. The branch expansion was, however, smaller than in 1960 and much smaller than in 1959. The overall increase in the aggregate number of offices of commercial banks in 1963 (318) was much larger than in 1962 (152). At the end of 1963, the number of offices of scheduled and non-scheduled banks stood at 5,032 and 510 respectively. Recently the process of consolidation and strengthening of the banking system through schemes of compulsory mergers has been taken further.

Under the impetus of the higher Plan outlay, the expansionary trend in the economy has been more and more marked. There has been mounting demand for credit by trade and industry without any commensurate expansion in the resources. The monetary authorities have been following a policy of selective credit control apart from general restriction on the quantity of credit operated through the raising of lending rates. However, attempt has been

made to ensure that flow of credit for genuine commercial and industrial needs is not checked. On the whole, the banking system in India has stood up to the responsibilities thrown on it by the process of economic development.

With the greater rate of investment in the economy, banking business as represented by advances and deposits has been rising to higher levels. Large deposit expansion has been a very striking feature of the banking in recent years. This was partly due to the hardening of interest rates on fixed and saving bank deposits and partly to the fact that some portions of newly generated incomes must have gone into bank accounts. In the First Plan period, the bank deposits increased by an average of Rs. 33 crores a year, whereas the average increase during the Second Plan was Rs. 167 crores a year. The scheduled banks' aggregate deposits rose by Rs. 233 crores in 1962 and by Rs. 283 crores in 1963, the rate of deposit growth being 13.7% in 1962 and 14.7% in 1963. Deficit financing by Government was the major factor responsible for faster growth. The aggregate deposits on last Friday in 1950-51 were Rs. 880.61 crores, in 1955-56 Rs. 1,043.15 crores, in 1960-61 Rs. 1,746.06 crores, in 1961-62 Rs. 1,921.87 crores, in 1962-63 Rs. 2,042.26 crores and in 1963-64 Rs. 2,285.24 crores. There has also been a significant change in the structure of deposits. Demand liabilities formed 67.3% of the average liabilities at the end of 1951, but fell to 60.5% at the end of March 1956 and 43.5% at the end of March 1961. On the other hand time liabilities expanded four times over the decade, the proportion rising from 32.7% at the end of 1950-51 to 56.5% at the end of 1960-61. From 1960-61 to 1963-64, the demand liabilities increased from Rs. 691.68 crores to Rs. 960.30 crores and time liabilities from Rs. 1,054.23 crores to Rs. 1,233.93 crores.

In 1960-61, there was a record expansion (18%) of Bank credit. This indicated larger investment activity both in the public and private sectors, the need for financing large stocks with industry and trade and rising prices especially of industrial raw materials and manufactures. The Bank credit during the Second Plan period went up by 76% as against 39% in the First Plan period. This is an impressive growth. The credit-deposit ratio was 70.12% at the end of 1963.

In 1963, the banking system experienced the full impact of the emergency. There were mounting defence outlays superimposed on the usual seasonal demand on banks for credit. The inflationary impact necessitated a policy for credit restraint. Accordingly, the Reserve Bank tightened its credit policy. As a consequence, credit expansion in 1962-63 busy season kept more or less at the same magnitude as the previous busy season expansion, viz., around Rs. 200 crores. The seasonal expansion in bank credit coincided with a marked slowing down in the rate of deposit growth (5.1% as compared with 9.5% in the previous busy season). Still the credit deposit ratio touched a peak of 80.1% on April 12, 1963 as compared to 78.5% in the previous busy season. But in 1963 slack season, there was a sharp increase in deposits

owing to accelerated tempo of Government outlays on defence and development. The larger contraction in credit, together with greater accretion to deposits, led to a substantial drop in the credit-deposit ratio from 78.6% to 67.4% over the slack season. But the relaxation in credit policy, on the eve of the 1963-64 busy season credit expansion, tended to become too rapid and in early March it exceeded Rs. 300 crores.

Financial stringency is a common characteristic of a phase of economic boom when investment tends to outrun savings. In an underdeveloped economy, which has embarked upon rapid development, the boom phase tends to be continuous and financial stringency, which is its normal accompaniment, is likely to be more than temporary. In a situation like this, steps have to be taken to restrain excessive diversion of the limited supplies of credit for less essential, though more profitable and therefore more attractive, uses. Credit has to be diverted, on the other hand, to specific essential purposes. The Reserve Bank's credit control policy was directed to the realisation of these objectives.

The emphasis of credit policy was on ensuring adequate flow of credit to industrial and other developmental activities. Industrial advances as a proportion of total bank advances increased from 34.3% at the end of 1955 to 44.7% at the end of 1960, to 53% in 1961 and to 57% in 1963. This shows the growing importance of the secondary sector in the national economy. The rise in industrial advances was mostly at the expense of commercial advances whose proportion in the total shrank from 49.1% in 1955 to 32.8% at the end of 1960, 36% in 1961 and 33% at the end of March 1963. Of the increase in scheduled bank credit in the First Plan period, industries accounted for 41%. Bank credit to industry during the years 1956-60 accounted for a much larger proportion because of accelerated industrial development during the Second Plan. Over the decade 1951-60 industrial credit increased by two-thirds of the total increase in bank credit. On March 31, 1963, of the scheduled banks' advances, industry accounted for 57.2%, commerce 27.6% and agriculture 0.3%. Another fact which indicates the broadening and growing diversification of Indian economy is the continuing pressure of credit demand even in the slack season.

The outstanding amount of borrowings under the Bill Market Scheme at the end of each of the last few years has been higher than those against the Government securities. This clearly shows that the scheme has become a permanent and useful part of central banking mechanism.

A very important recent trend in Indian banking is the increasing extent of credit control by the Reserve Bank. The success of the recent credit restriction policy of the Reserve Bank amply bears that out. The Reserve Bank has come to occupy a position of greater prestige and influence so that the lead given by it is followed much more readily than before. Within the policy of overall credit control selective credit controls are operated with

outside modifications in the light of the demand and supply position of the controlled commodities.

In view of the inflationary impact of the emergency, the Reserve Bank, for the first time, set a ceiling to the total amount which a bank could borrow from the Reserve Bank and a modified system of tier lending rates. On January 2, 1963, the Bank Rate was raised from 4% to 4½%. Simultaneously, the system of borrowing quotas and lending rates was simplified by merging the first two slabs. On the eve of busy season, i.e., on October 30, 1963, the Reserve Bank liberalised its credit policy.

A measure of credit elasticity has lately been imparted to the Indian banking system by the introduction of the bill market scheme. As a result credit is contracted in the slack season and expanded in the busy season.

In 1961-62, some important banking developments took place. The Deposit Insurance Corporation was set up in January 1962 with the objective of giving a measure of protection to depositors to a specified extent (at present fixed at Rs. 1,500 per depositor) from the risk of loss in the event of bank failures. Steps were taken to strengthen the capital base of banks. The banks whose reserves were less than their paid-up capital were to continue to transfer 20% of their declared profits till the reserves and paid-up capital formed 6% of total deposits. Export credit facilities were increased and remittance facilities were further liberalised. Establishment of Agricultural Refinance Corporation in July 1963 and of Industrial Development Bank in July 1964 were the other recent developments.

In conclusion we can say that the period since Independence, more particularly since the passing of the Banking Companies Act in 1949, has been one of a fair measure of consolidation of banking though not of its expansion. This has been made possible by (a) bank legislation with its desirable restrictions on the organisation and working of banks, (b) the wide powers conferred on the Reserve Bank by the Act of 1949, and (c) the judicious manner in which the Reserve Bank has been discharging its responsibilities and exercising its powers of supervision and control, the managements of banks have been showing greater sense of responsibility. With the completion of this consolidation, the Indian banking will soon be ready for another stride in the process of its expansion in the wake of economic development upon which we have already embarked.

In the last few years, banking in India has made impressive advance. Deposits have shown a high rate of increase which is indicative of success in banks' efforts at deposit mobilisation. In this task, branch expansion programme has played notable part. The process of weeding out inefficient and uneconomic units and merging weaker units with stronger ones has also helped to strengthen the banking structure. The introduction of a scheme of deposit insurance has given a measure of protection to the depositors

which may be expected to sustain and increase public confidence in the banking system. The accelerated growth in deposits, however, has not been adequate to meet all demands for bank credit comfortably. The credit-deposit ratio has tended to rise and correspondingly the proportion of liquid or near liquid assets has declined. The onset of emergency heightened the acuteness of the problem. The banking system had to gear itself to defence effort while maintaining the rate of development.

Rural Banking Facilities

By banking facilities we obviously mean facilities both for keeping one's savings in the form of deposits and for obtaining credit for business purposes. When we look round, we find that the position in respect of banking facilities in our rural areas is at present far from satisfactory and has been acting as a serious drag on agricultural progress. The **most serious aspect is the utter inadequacy of such facilities. Commercial banks** are not to be met with in the rural areas. In spite of rapid increase in the number of banking offices in recent years, the rural areas continue to remain unserved as before, because the banking offices are concentrated in the large cities and towns. The offices of the commercial banks do not go beyond the district or taluqa (tehsil) headquarters. According to the Rural Banking Committee as many as 492 places, which are either district or taluqa headquarters, are also without any modern banking facilities. Partial banking facilities (acceptance of deposits only) are provided by Post Office Savings Banks, but their number is indeed very small. The Rural Banking Enquiry Committee (1950) found that there were only 6,401 such banks in the rural areas (against 5 lakh villages in the country).

Considering the number of villages in the country, 3,41,841 **co-operative credit societies** (in 1961-62) are also not enough. And during the year agricultural credit societies advanced no more than Rs. 228.31 crores. The position in respect of long-term finance is most unsatisfactory since we had only 536 **primary land mortgage banking societies** (1961-62) which advanced no more than Rs. 12,59 lakhs during the year.

Among the other banking agencies in the rural areas is the **money-lender.** But we know that he does not accept deposits. Moreover, owing to the stringent legislation enacted in recent years in regard to money-lenders, this source of rural credit is fast declining.

. **Indigenous bankers** in the smaller towns and even in the bigger towns and cities do provide some banking facilities to the rural areas in the financing of agricultural marketing, but their activities are also seriously limited.

Not only are the rural banking facilities most inadequate but all the agencies of rural banking suffer from very **serious defects and such facilities are very costly as well.** That money-lender's finance abounds in a multitude of serious defects and malpractices

does not need any labouring. Indigenous bankers also charge very heavy rates of discount, with the result that the agricultural seller gets much lower prices than are his due. While co-operative institutions are well developed in Bombay and Madras, their working and achievements elsewhere are also not so satisfactory. The various defects in the working of the co-operative credit societies are also too well known to need elaboration.

A vast extension of rural banking facilities is very badly needed, **firstly, for financing agriculture** (the premier national industry) and **trade** in the rural areas, particularly the movement of agricultural crops, and **secondly, for encouraging the habit of thrift and saving among the rural population and effectively to mobilize such rural savings** for financing the country's economic development. This latter object has assumed particular importance during recent years. The saving capacity of the rural people has appreciably increased on account of a clear shift in incomes from the urban to the rural sector. Unless banking facilities are provided these rural savings will either be dissipated in consumption or will lie untapped at a time when every single rupee of national savings is urgently wanted for economic development.

Apart from this present shift in incomes even otherwise it is very desirable that rural banking facilities should be extended to make the mobilization of rural savings possible as a permanent and normal part of capital formation in the country. Most of the development projects needing internal capital are for agricultural development. It is the rural people who will benefit more than others from their completion. Why should they not be enabled to make their full contribution to raising at least a part of the necessary finance?

It is gratifying that the need for extending and developing rural banking facilities has been fully realized by the Government. The Government have from time to time appointed special committees to recommend suitable methods and steps for the purpose. The **Gadgil Committee** on Rural Finance, the **Saraiya Committee** on Co-operative Planning and the **Rural Banking Enquiry Committee** (appointed in 1949 and reported in 1950) have discussed the subject threadbare and have made very valuable suggestions. The last one of these Committees was concerned with the extension of banking facilities in rural areas mainly for mobilizing rural savings. In making suggestions for the extension of banking facilities in rural areas, we shall, of course, have the benefit of their labour.

Suggestions for Improvement

The most important banking services immediately needed by the rural people are: (i) the acceptance of deposits, and (ii) the making of advances.

In respect of the provision of short and medium-term credit, special emphasis should be laid on building a sound structure of primary co-operative societies. Commercial banks should also play

a greater role in rural credit than they do at present in attracting deposits, and in financing agriculture, particularly in respect of marketing. The money-lender's agency must, of course, be regulated and improved but care should be taken that it is not rapidly ousted till a satisfactory alternative machinery is established. For long-term credit, the number of co-operative land mortgage banks, primary as well as central, should be increased. For encouraging a deposit-making habit, the Post Office Savings Banks should be increased in number and made popular.

These are only the main lines on which rural banking facilities should be developed. But concrete measures must also be suggested for each of the above-mentioned types of banking agencies.

Taking **co-operative movement first**, the following suggestions may be made. Apart from the efforts which the various State Governments are making for assisting, reorganising and developing the movement, additional facilities to co-operative institutions may be given in the shape of: (a) remittance of funds at concessional rates through post offices, (b) relaxation, in the case of co-operative societies, of post office savings bank rules regarding the number of withdrawals per week and maximum deposits to be held, and (c) the approval of the co-operative banks and societies as authorised agents for the sale of National Savings Certificates. Moreover, co-operative banks may be encouraged to make a greater use of the provisions for financial assistance at concessional rates from the Reserve Bank.

In regard to **extending the facilities offered by joint-stock commercial banks**, the Government should take active steps in the following two main directions, viz., (a) to remove the existing impediments to their expansion and (b) to give positive facilities to their expansion in the rural areas.

The impediments to the expansion of banks may be overcome by fighting illiteracy and conservatism through spread of education and the development of rural communications, mainly roads. Among the direct facilities may be included cheaper and free remittance facilities by the Reserve Bank, facilities for these banks to keep their iron safes and chests for safe custody in the strong rooms of the Government treasuries and sub-treasuries; and the development of warehouses so that these banks may have good volume of business in agricultural bills supported by warehouse receipts. As the Shroff Committee recommended, the Reserve Bank should work out a detailed scheme of financial assistance to licensed scheduled banks opening branches in accordance with an expansion programme submitted by them and approved by the Reserve Bank. The assistance may, for instance, take the form of a lump sum to cover part of the initial expenses of the branch, and a commission in respect of deposits collected over a prescribed minimum. If necessary an assurance may be given to a bank opening a branch in an undeveloped area that, for a limited period (say, up to five years), no additional banking office will be allowed to be opened.

Recently, in some areas mobile banks have been started to serve a large number of villages and small towns. The number of such 'banks on wheels' should be increased.

The **Post Office Savings Banks** are indeed specially suitable for collecting savings from the less well-to-do people in rural areas. Accordingly, the number of post offices doing savings bank work in the rural areas should be increased and the following steps should be taken to make them more popular: (a) regional languages should be used to a greater extent than is done at present in the pass books, forms and notices used by these banks; (b) systematic propaganda should be conducted in the rural areas so that the rural public should take to these banks.

Realising the important place which extension and reorganisation of the postal savings bank system occupies in the extension of rural banking facilities, the Government got a detailed investigation conducted very recently into the working of the system and a scheme of reorganisation has been drawn up. This is being tried on an experimental basis in a few centres in Bombay. If found successful it will be adopted on a large scale

Efforts should be made to link up the **indigenous bankers** with the Reserve Bank so that their capacity to finance agriculture may be increased and such finance may be cheapened as well.

These are a few practical suggestions which, if acted upon, will go a long way towards removing the more serious gaps in the banking system of the country. To these, however, may be added the very valuable suggestions made by the Committee of Direction of the All-India Rural Credit Survey sponsored by the Reserve Bank of India. (These suggestions and the action taken to implement these have already been outlined in the chapter on Agricultural Finance.)

The present utter inadequacy on the one hand and the great need on the other indicate the vast scope for the extension of banking facilities in rural areas. The recent shift in incomes to rural areas has further enlarged the scope. But obstacles to their extension are: (i) Illiteracy of the rural masses. (ii) Hoarding habit in the people. (iii) Inadequacy of rural communications, mainly roads. (iv) Less security as compared to that in towns so that commercial banks are afraid of keeping large funds—this raises the problem of safe custody of their balances and cheap and easy remittance facilities. (v) Absence of warehouses on receipts of which commercial banks could lend. (vi) The present complicated procedure of organised banking and of postal savings banks. Determined efforts should be made to overcome these obstacles.

The International Bank for Reconstruction and Development

When the World War was over the need for the rehabilitation of war-torn economies was urgently felt. Political measures alone could not solve the problem unless accompanied by mea-

sures of economic reconstruction. The need for these measures was recognized by holding international conferences like the I.L.O. at San Francisco, the I.T.O. at Havana, the Brettonwoods Conference and the creation of the International Monetary Fund and the International Bank.

The World Bank, as it is briefly called, assists reconstruction and development in member-countries through long and medium-term loans. It also promotes private foreign investments by guaranteeing or participating in loans and other investments made by private investors. It pays special attention to the development of backward areas.

It thus helped in bringing about a smooth transition from a war-time to peace-time economy, as well as "in raising productivity and the standard of living and conditions of labour in territories of the member-nations." Besides, the final settlement of the huge lend-lease and reverse lend-lease accounts and the maintenance of equilibrium in the balance of account payments also needed long-term loans. For these purposes and for re-establishing world commercial relations on a stable multilateral basis, this bank was urgently needed.

The total amount to be subscribed to the Bank by its original members was $7,670 million (the membership in 1963 was 101 and subscribed capital amounted to $21,027 million), of this only 10% was called up in 1946. Each nation was required to pay 3% of the initial demand in its national currency, and the rest in U.S dollars or gold. India's total quota came to $400 million. The quotas of some other countries were: U.S.A. $2,435 million, U.K. $1,000 million, China $600 million, France $450 million and so forth. India's initial contribution came to $40 million, payable $8 million in gold or U.S. currency, $12 million in gold and $20 million in rupees. It was thought that it would be beneficial if India secured the advantage of original membership of the I.M.F. and the International Bank, and it did so. Being one of the five countries with the largest quota, India has a permanent seat on the Executive Board of the Bank.

The heaviest lendings in 1958 led to a feeling that in today's conditions, the present capital structure of the Bank did not give it the borrowing capacity needed to enable it to meet the reasonable requirements of its lending operations in the near future. The Bank, therefore, announced on February 2, 1959, that the Board of Governors had unanimously approved the proposal to increase its capital from 10,000 million to 21,000 million dollars The member-countries were asked to take appropriate action in this connection by September 1, 1959. India has also doubled her subscription raising it from $400 million to $800 million.

The Bank is a source of mutual assistance. It has enough cash and reserves to meet interest and amortization on dollar obligations for a number of years. When in need it calls on its subscribers for the capital not originally called. U.S.A.'s share

alone comes to an additional \$2,500 million. The Bank can secure still more funds by selling bonds to private investors.

The Bank assists member-nations in utilizing their available resources—raw materials, transport facilities, fuel, power, plant, idle manpower, existing technical and managerial skills—so as to attain pre-war and even higher output levels. Its development credits are mainly meant for the under-developed areas of the globe—Asia, Africa and Latin America. It lends money to member-nations or private industries on the guarantee of member-nations as a business enterprise on a "good risk" basis. Thus it has given loans for long periods to various countries needing capital for development purposes. The Bank furnishes to its members a wide variety of technical assistance services ranging from full scale economic surveys to investigations or advice on particular projects.

Bank borrowing in the market and by private placement had reached \$2,510 million net by 31st December, 1963. In addition, the Bank had sold portions of loans, worth \$1,727 million from its portfolio. At 31st December, 1963, the Bank had made 371 loans totalling \$7,465 million in 70 of its 101 member countries for projects such as reconstruction, electric power, industry, agriculture, communications and general development. The borrowing countries seem to have reached the limits of their borrowing capacity. India, for instance, has reached her limit. Unless the Bank relaxes its strict standards of credit worthiness and repayment, the Bank's commitments must go down. They actually went down in 1962-63. The Bank cannot therefore contribute to economic development as much as in the past.

Before the Bank advances a loan, it conducts thorough investigation, not only of the individual project concerned, but of the economic and financial condition of the country itself. It is not content with documentary evidence but sends out missions to investigate the problems at first-hand. The Bank is not prepared to lend unless it is satisfied (a) that the overall economy of the borrowing country was soundly operated; (b) that the overall plans for reconstructing economy would reinforce the basic soundness of economy; (c) that the projects which the Bank was asked to finance had been correctly prepared and were financially and economically justified.

In order to secure I.B.R.D.'s assistance, it is of primary importance, therefore, that a developing country keeps a constantly critical eye on the soundness of its budget structure, on the existence of a healthy and stable relationship between wages and prices; on the effective utilization of its available resources of materials, transport and power; on the flow of goods within its borders and the volume and character of exports and imports passing across them; on its balance of payments; and on all the diverse aspects of national life which reflect the health of its economy. From its 16th annual report, it is clear that the activities of the World Bank have become "part of a broadening

stream of financial and technical assistance to the less developed countries." It is true that other sources and other institutions too have become active in a task which the Bank pioneered with such imagination and purposiveness in the difficult and uncertain years following its inception, but this has not detracted from the importance of the part which the Bank is playing in mobilizing international assistance to developing economies. That the Bank can adapt its original role to new requirements is also abundantly clear, some recent illustrations being the setting up of the International Development Association for making "soft" loans and the consortia of member-countries which the President of the World Bank has organized for rendering concerted aid on bilateral basis.

India and I.B.R.D.[1]

India is a founder-member of the Bank and holds the fifth largest share in its capital. Loans granted by the Bank up to December 31, 1963, amounted to Rs. 249 crores for the public sector and Rs. 154 crores for the private sector, making a total of Rs. 403 crores. Of this amount, Rs. 20 crores were utilized before the First Plan, Rs. 14 crores during the First Plan and Rs. 223 crores during the Second Plan. Of the balance of Rs. 146 crores, a sum of Rs. 79 crores was utilised up to December 31, 1963. The schemes for which the Bank has advanced loans include: (i) purchase of locomotive and other equipment for Indian Railways, (ii) purchase of agricultural machinery required for the reclamation of weed-infested and jungle lands, (iii) irrigation and power projects of Damodar Valley Corporation, (iv) purchase of aircraft by Air India Corporation, (v) development of the ports of Calcutta and Madras, (vi) hydro-electric project at Koyna in Maharashtra, (vii) expansion programmes of the Tata Iron and Steel Company, (viii) installation of thermal power station at Trombay near Bombay, (ix) development of coal industry in the private sector, and (x) assistance to the Industrial Credit and Investment Corporation of India to enable it to advance loans to private companies. IBRD has also assisted India in arranging meetings of friendly countries to discuss India's foreign exchange requirements and devise methods of extending financial assistance.

1. See *India 1964*, p. 411.

Nationalisation of Banks

Adoption of the goal of Democratic Socialism has proved to be a signal for starting a controversy regarding the nationalisation of banks in the country. Some people think that nationalisation of banks is an essential step towards the establishment of democratic socialism. Thus the question of nationalisation of banks has become linked with democratic socialism. In spite of authoritative and firm statements from responsible government spokesmen that the banks would not be nationalised, the controversy persists. The bank employees, and the leftist parties in the country are arrayed on one side and the Indian Banks' Association and the private sector generally on the other. The Government is also opposed to this step. Since banks occupy a pivotal position in the financial fabric of the economy and the banking business vitally affects the financial stability and the economic progress of the country, it is necessary to weigh the pros and cons of nationalisation of banks. We shall first examine the arguments for and then against this step.

Arguments For

(1) It is said that the nationalisation of banks will bring a large revenue annually to the Government treasury. But the amount of this revenue has been variously estimated. If it could yield Rs. 75-100 crores a year, it is worth it; but if it is only Rs. 5-6 crores, it is not worth the candle. The total profits made by banks in 1961, according to the Statistical Tables Relating to Banks published by the Reserve Bank, were Rs. 28.80 crores. Of this Rs. 14.45 crores, i.e., more than half, were already paid to the Government as taxes. About one-fourth of the total profits were transferred to reserves and for payment of bonus to the employees. According to Indian Banks' Association Rs. 4.61 crores were paid to the shareholders as dividends. Obviously this is too

small an amount to quarrel about. In any case the revenue considerations are of least importance. The nationalisation of banks must be supported by weightier considerations, ideological or political. Several other less offensive ways of raising revenue are open to the Government.

(2) Nationalisation would make for more effective mobilisation of resources and capital formation in the country in order to accelerate its economic development. It is said that Government banks would inspire greater confidence and attract deposits from private hoards. But it has to be admitted that the performance of the banks in mobilising the savings of the community has been quite creditable. Between 1951-52 and 1961-62 bank deposits have increased by 134% and the number of deposit accounts doubled. For mobilising resources, the scheduled banks had in 1962 a network of nearly 4,600 branches as against 997 of the State Bank. Between 1955 and 1962 they opened 1,198 new branches against 554 by the State Bank. Even though the State Bank of India and its subsidiaries enjoy special privileges, the scheduled banks have held their own. Depositors from other banks have not flocked to the counters of the State Bank. The banks in the private sector have a sound reputation and render prompt and efficient service which mere nationalisation will not improve. However, the banking system is already investing 30% of its resources in government securities at an uneconomic rate; and 65% of its resources are required to run the wheels of trade and industry. Thus there is not much scope for routing additional resources to Government undertakings.

(3) Nationalised banks can be relied upon to bring about a more desirable distribution of credit. For instance, we can make them help small industry and agriculture better. We can also make them invest more in industry than in speculative transactions. But bank loans largely depend upon the policy of the Reserve Bank of India than on the wishes of the lending banks. Also, the banks, whether in the private sector or in public sector, must be guided by prudence, i.e., considerations of safety, liquidity and profit. Investment really depends on the credit-worthiness and repaying capacity of the borrowers. It is not consistent with any banking practice at all to lend money for schemes of social amelioration which are not likely to yield a monetary return. It is the depositors' money which the banks use and not their own money. "To use their money for what they would call political purposes—whether the schemes were financially sound or not—would certainly be denounced as robbery, confiscation and the seizure of your opponents' money."[1] Profit motive cannot be altogether eliminated by nationalisation. That is why even the State Bank of India has been able to help small industry and agriculture to a limited extent. The credit extended to small units in 1962 was about 1% of its deposits and about 2% of its total advances.

1. White, A. B.—*Nationalisation of Banking*, 1934, p. 55.

The recent trends in banking practice in India show that the banks have financed industry to a larger extent as against commerce. Investment in industry has increased from 34% in 1951 to 54% in 1961 and in commerce it has decreased from 58% in 1951 to 34% in 1961. This means that the tables have been completely turned. Their advances to small-scale industries and co-operative institutions had doubled between June 1960 and December 1962. Of the total outstanding bank advances to small-scale industries amounting to Rs. 39.44 crores in December 1962, the State Bank's contribution was only Rs. 5.99 crores. Thus the case for nationalisation on the ground of better distribution of credit falls.

(4) It is said that the depositors will get better security through nationalisation of banking. But there is little ground for this belief. The Reserve Bank control and supervision have practically eliminated the risk of bank failures. The Deposit Insurance Corporation is there to guarantee complete security up to Rs. 1,500, which means for four out of every five depositors in India.

(5) Nationalisation of banks is also advocated on the ground that it would prevent concentration of wealth and economic power in the hands of a few bankers and industrialists. But a recent amendment of the Reserve Bank Act limits the voting rights of an individual shareholder or a group to 5%. Considering that the number of banks' shareholders in India number several tens of thousands, the ownership of banks is fairly widespread. Since there are about 5,000 branches and each branch manager exercises a large amount of discretion, the lending operations are highly individualistic and decentralised. The Government has complete control of capital issues and industrial licensing and exercises vast powers of direction and regulation at every stage of manufacture, movement and distribution of a wide range of commodities. If this cannot prevent concentration of economic power, nationalisation of banking by itself will not be able to do it.

(6) It is said that there are several evils and malpractices associated with banks in the private sector, such as evasion of foreign exchange regulations and of taxes, bank advances to directors, interlocking of directors, etc. But the regulatory and supervisory powers of the Reserve Bank are sufficient to curb malpractices. There is no aspect of banks' administration which could be concealed from the watchful eye of the Reserve Bank inspectors.

(7) Nationalisation of banking will replace profit motive by service in a major sector of Indian economy and thus give it a socialistic twist. But the shareholders generally get 6% return on their capital invested in the banks, and this is not much of a profit. But even a nationalised bank has to act on strict accounting principles and make sound investments based on commercial considerations. These are elementary principles of prudent management. No bank, state or private, can just throw away its funds in pursuit of humanitarian activities and social services

Even State Bank makes a profit. In fact, we expect all public enterprises to make profit otherwise we think they are not properly managed. Profit making is inevitable in all undertakings of commercial or industrial nature. Hence elimination of profits cannot be a ground for nationalisation of banks.

(8) Nationalisation is advocated because of wastes of competition and duplication of establishments. Enormous expenditure is incurred on huge bank buildings, their expensive up-keep and costly separate staff, competitive advertisement, etc., to create product differentiation. There will be a great saving in operating costs and overheads if we have one big bank instead of five crowding as at present in a selected centre. There is a good deal in this argument. But there is a danger that elimination of competition may lead to deterioration of services rendered to bank clients.

(9) The advocates of banks' nationalisation point out that it would give the government not merely control over banks but tremendous power over capital and money markets. It would thus be able to determine the extent, direction, and pace of growth in all the major sectors of the economy, viz., trade, commerce and industry. No further step would be required to establish democratic socialism. This is true. But is India ripe for such an adventure? We doubt it.

(10) Finally, since the banks can create credit, it is not considered safe to leave them in private hands. But the banks cannot create credit at pleasure. From the banking practice we might see that the credit which the banks can give is almost wholly decided for them. Only that much money will be lent as can prudently be lent. What is prudent or safe is fixed; because the banker works to a certain ratio.

Thus there is not much substance in the arguments put forward by the advocates of nationalisation. The arguments are not convincing enough. To advocate nationalisation on political or ideological grounds is a different matter. Now let us see the other side of the picture.

Arguments Against

(1) The compensation to be paid by the Government to the present shareholders of the banks is beyond the present means of the government. It has been estimated at Rs. 100 crores. It will mean annual burden of Rs. 3 crores to be paid as interest on bonds issued to the shareholders by way of compensation, whereas the benefit has been estimated at Rs. 4.61 crores less income tax. Thus the net benefit to the government is insignificant.

(2) It may be pointed out that there is already a large existing public sector in banking. The State Bank of India and its subsidiaries command nearly one-third of the banking resources of the country. It will be more useful and effective to enlarge the area of its operations. By improving its efficiency

and rendering a better service, it is open to it to squeeze out the other banks. With the prestige of the government at its back and with the special privileges and patronage that it enjoys, the State Bank has a vast opportunity to elbow out the other banks. Why take them over?

(3) The state monopoly of banking would retard the growth of the national economy. At present the bank lending is a highly individualistic and decentralised process. Thousands of branch managers use their discretion and intimate knowledge of local conditions to determine the credit-worthiness and repaying capacity of industrial and commercial enterprises which they finance. The flexibility and discretion which now prevail will be all lost under the nationalised banking system. Individual discretion and flexibility will be replaced by procedural delays and rigidities which are a source of great annoyance. Deserving men of commerce and industry will find it hard to get accommodation. There will thus be another serious bottleneck hindering economic growth. Controls hamper free movement of goods and nationalisation of banks will obstruct the free flow of funds seeking points of optimum return.

(4) Corruption is known to be widely rampant in all government departments. Nationalisation of banks will open another wide door to organised corruption. Already the traders and industrialists are feeling restive under various types of controls exercised by the government. To overcome irksome controls or to take advantage of them bribes are being freely offered. In fact public knows that nothing can be got done in a government department without illicit gratification In the present state of morality of public servants we would shudder to place more power in their hands.

(5) At present there is a healthy competition between banks to the great advantage of the public. There is a great incentive for efficiency and better service All this advantage would disappear when the banks are nationalised. The bank customers may suffer inconvenience and loss. It will have an adverse effect on savings and growth of capital. The national economy cannot escape the damages. But we must point out that already the banks have eliminated this 'healthy' competition by fixing all their rates by agreement.

(6) With the vast powers of superintendence, direction, and control that the Reserve Bank wields over banks, nationalisation of banks is altogether unnecessary. No new branch can be opened without the approval of the Reserve Bank; the chief executives can be appointed only with the approval of the Reserve Bank and Reserve Bank has also the authority to direct the removal of the undesirable bank officials. The Reserve Bank can post observers to watch a bank's operations. By means of general and selective credit controls the Reserve Bank can control the volume and directions of bank advances. Thus the government, through the

Reserve Bank, has extensive powers of inspecting, controlling and directing the operations and administration of the banks in order to preserve the safety of the deposits and to promote the interests of the nation. What more does the government seek by nationalisation?

Conclusion

Weighing these pros and cons we have no hesitation in coming to the conclusion that in the present circumstances nationalisation of banks is unnecessary and may, instead of conferring a positive benefit, inflict a certain damage to national economy and may retard its progress. Besides, it is not worthwhile taking the risk. Government ownership of banks is not going to solve our economic difficulties. Rather, in its present state, the Government is incapable of carrying efficiently and economically the great responsibility that would fall upon it. We are by now fully aware of the dangers of a huge bureaucratic machine and we must not add to them. The promotional, supervisory and regulatory powers of the Reserve Bank are wide enough not only to nip the evils and malpractices in the bud but also to promote healthy growth of the banking system as well as to ensure that it contributes in the most effective manner to the economic and social objectives under planning. The banking system is the most widely controlled sector of the Indian economy. The control over the banking system is complete to the point of nationalisation. To nationalise banks at the present stage of our economic development would be an ill-advised and hasty step. We have a 'mixed' banking system in which both public and private sector institutions function side by side, each making its own contribution to the promotion of savings and investment in the developing economy of our country under the stewardship of the Reserve Bank of India. Nationalisation of banks would absorb lot of time and energy and talent of the government which it can ill-afford at present. It is better that the public should have the choice of bank, and the banks their variety of methods.

In the words of G. D. H. Cole, "The banking system which a country needs depends on the general structure of the economic institutions into which it is required to fit. In a country such as Soviet Union, where production and distribution are owned either by the State or by some sort of 'collective' and administered in accordance with a public economic plan, it is plainly logical and natural for the banks to be public institutions and for the entire credit, as well as its total amount to be settled as part of the plan". In a country with mixed economy, mixed banking system obviously fits in much better. The principle that the commercial banks must do what the Central Bank tells them to do has been accepted and laid down in legal enactments, and for the time being that is perhaps enough Thus on all grounds it is wise to defer the question of nationalisation of banks, if not shelve it altogether.

CHAPTER XXIX

Prices in India

The study of prices is very important from many points of view. The variations from time to time indicate the general economic conditions in the country and enable us to compare them with foreign lands. They enable the Government to assess land revenue and other taxes and slide them up and down. They also reflect the expansion or contraction of currency and mould Government control policy. They influence foreign as well as internal trade. Booms and depressions are linked with the movements in prices. In fact, prices are the outward signs of the general economic activity.

The different sections of society are vitally affected by price movements. Besides, their influence on taxation, expenditure, currency and control policies, in short, on the entire economic policies of the country of the Government, is also very great. Hence a careful study of the price movements is not only beneficial but is also indispensable. Without price indices to guide them, government policies must necessarily be a leap in the dark. We shall study the course of Indian prices in recent years since they have an important bearing on the course of our economic development.

The end of the war in August 1945 did not relieve the strain on India's economy. The wholesale prices did not register a fall; on the other hand, there was a constant rise. The general index went on rising.

At the end of the War (1945) the price index was 245. Due to short supply of goods and a pent-up demand from an increased population, the prices went on rising steadily, till in August 1949 (just before devaluation) the index rose to 389. The failure of decontrol experiment had raised the price level considerably. From 389 in August 1949, they rose to 396 in June 1950 when the Korean War was declared. The rise was gradual

and not substantial. After the outbreak of the Korean War, the pace of the rise in prices quickened so much that they reached 439 in March 1951 as against 396 in June 1950, thus recording a rise of 11% in the post-Korean War period against a mere rise of 1.7% during the first six months after devaluation in the pre-Korean War period.

The factors which brought about a rise in prices during this second period were: (a) **Devaluation** of the rupee in September 1949, (b) **Stringent import restrictions,** (c) **The Korean War and the stockpiling programme,** and (d) **Indo-Pakistan trade deadlock** following devaluation.

But in 1954-55 there was a steep fall in commodity prices, in contrast with their previous relative stability. The main cause was the increased pressure of supplies from bumper crops (effect of First Plan), dishoarding of stocks due to elimination of controls, more liberal imports and growing industrial output. The greatest fall was in agricultural commodities. The fall in prices was largely a corrective to earlier high prices, but the Government was compelled to support prices of wheat (at Rs. 10 per maund) and later prices of coarse grains by purchasing them in the **mandis.** Measures were also taken to expand exports and curtail imports. Thus export duties on oils, cotton, paper, etc., were reduced and larger quotas granted.

The following table gives a picture of changes in price in recent years:—

Average weeks of	*All Commodities or General*	*Food Articles*	*Liquor and Tobacco*	*Fuel, Power, Light and Lubricants*	*Industrial Raw materials*	*Manufactures*		
						Total	*(1) Intermediate products*	*(2) finished products*
1	2	3	4	5	6	7	8	9
1950-51	111.8	112.5	98.4	92.6	130.9	103.3	112.4	101.8
1955-56	92.5	86 6	81.0	95 2	99.0	99.7	100.1	99.6
1960-61	124.9	120.0	109.9	120.0	145.4	123.9	130.6	122.8
1961-62	125.1	120.1	100.3	122.1	142.6	126.6	138.8	124.6
1962-63	127.9	126.1	100.6	124.1	136.5	128.8	139.5	127.1
1963-64	135.3	136.8	119.6	139.6	139.5	131.1	139.6	129.7

We may now consider in a little detail the causes of rise in prices in the post-war years.

Causes of the Rise in Prices

(a) **Increase in Currency.** One of the most important causes

of rise in early post-war years was the continuous increase in currency in India. The increase was not only in the notes in circulation but also in Bank credit as is clear from the table given below:

(In crores of Rs.)

Year	*Notes in circulation*	*Advances and Bills*	*(Base 1939=100) Price Index*
1938-39 ..	182	106	98
1945-46 ..	1163	301	245
1950-51 ..	1163	459	410
1951-52 ..	1190	546	435
1952-53	1115	500	381
1953 54 .	1134	495	397
1954-55 .	1196	553	377

Even in recent years, the increase in money supply with the public has been exerting its influence on the price level. The total money supply with the public increased from Rs. 1,954.7 crores in July 1955 to Rs. 3,315 crores in March 1963 This contributed to the rise of prices. The index number of wholesale prices for all commodities (1952-53=100) rose from 92.9 in July 1955 to 127 in March 1963. The following table shows the relation between the increase in the total money supply and the price level.

Last Friday	*Currency with the public*	*Deposit money supply with the public*	*Total money with the public*	*Price Index wholesale prices (Base 1952-53=100)*
1	2	3	4	5
1955-56	1,505·09	679·23	2,184·32	92·5
1960-61	2,026·89	874·83	2,901·72	120·0
March 1962	2,201·8	847·8	3,049·5	123·5
March 1963	2,378·3	936 8	3,315·1	127·1
March 1964	2,410·83	1,147·15	3,740·20	139·3

The price index stood at 134.9 in December 1963 and 139.3 in March 1964.

(b) **Budget deficits** at the Centre and in most States persisted even after the war was over. In this connection it may be mentioned that though the revenue budgets were balanced, the capital budgets had inflationary effects. Total deficit during 1956-57 was Rs. 253 crores inclusive of States and it rose to Rs. 503 crores in 1957-58.

(c) The changing policy of the Government as regards **control on prices and goods** accentuated the trouble.

(d) There was a great pressure of **money gained in the black-market on goods.** This money successfully evaded paying income-tax. Such funds were employed on speculation, hoarding and increased spending.

(e) The failure of Government in its borrowing plans also caused a rise in the price level. **Increase in salaries and dearness allowances** worsened the situation. Wages of industrial labour also rose.

(f) To make matters still worse, there was an overall **decline in agricultural and industrial production.** Natural calamities like failure of monsoons, floods over large parts of the country year after year and earthquakes overtook India. The decline in production was all the more alarming because the population kept on multiplying at the rate of 50 lakhs per year. The inadequacy of raw materials and capital equipment, bottlenecks in transport and industrial unrest, all caused the decline in industrial production. The position, however, improved in this respect from 1954 onwards.

(g) India's balance of trade grew steadily unfavourable, specially against hard currency areas. Imports, specially of foodgrains, increased. Industrial raw materials and capital equipment were purchased in large quantities. To cover the deficit severe restrictions on imports of consumer goods were laid. As a result prices of these materials tended to rise.

Effects of the Rise in Prices

Rising prices do not have the same effect on all persons. The smaller the income and the larger the family, the greater is the hardship. People with bigger incomes have to sacrifice only luxuries and comforts, while the poor have to part with necessaries. In India the majority of the people being poor, the suffering was correspondingly greater. Inequalities in income are greatly aggravated by a rise in prices. Let us discuss the effects of this rise on different activities and classes in India.

1. **Effects on Production.** When prices are low, a moderate rise encourages production, but a steep rise in prices results in a continuous rise in the cost of production. As a result, demand and consequently production, decline after a certain stage. Thus

production declined in India after the war. Inflation creates a false sense of prosperity. In reality each rupee the businessman got, was worth much less in goods. Inflation creates big contrasts of wealth. A few are prosperous, many are unhappy.

2. **Effects on Labour.** Due to a rise in prices and a higher cost of living, the labourers suffer. In post-war years, there were strikes and disturbances. Dearness allowances were given to keep labourers contented. But wages did not rise in India in proportion to the rise in prices. They lagged behind.

3. **Effects on Middle-class People.** They form the backbone of society; and are generally educated. Most of them are employees either under Government or in business offices. Thus their incomes are fixed. They are the worst sufferers when prices rise. They are compelled to reduce their standard of living. A large percentage of their income is spent on clothing for their families. This expense must be kept up for the sake of appearances and their food suffers in quality. Even their savings deteriorate in value. Thus they are the worst hit. Salaried people in India have been the hardest hit as a result of the rise in prices.

4. **Hoarding and Black-marketing.** Rising prices always stimulate hoarding of commodities. Producers and consumers, all try to hoard. Some hoard for better prices and for black-marketing, others hoard for fear of higher prices and against black-marketing. Government tries to curb these unsocial activities but their efforts are ineffective so long as inflation lasts.

Conclusion. We may conclude then, that industrialists, speculators, traders, contractors, businessmen, and big landlords generally profit from rising prices. They suffer only if government controls their operation and taxes their gains. But consumers generally, and people with fixed incomes particularly, stand to lose. They have either to lower their standard of living or spend previous savings. Government servants are the worst hit as the dearness allowances they are given stand no comparison with the rise in the cost of living.

We may now consider in a little detail the measures adopted by the Government to check the rise in prices.

Remedial Measures

In the pre-devaluation period (i.e., before 1949), the Government exercised strict economy cutting down unnecessary staff and reducing expenditure on social, educational and welfare activities, cutting defence budget, etc. Income-tax rates were raised. Government borrowing programme was intensified. Monetary measures like reduction in notes were also adopted. Ceiling prices of foodgrains were fixed and foodgrains were imported. Production plans were launched.

A few months after devaluation, the Korean War broke out.

This gave rise to a sudden spurt of speculation. To meet the situation, the Government enunciated an eight-point programme to hold the prices and to increase production. Steps were taken to relax controls on imports and prevent hoarding of foodgrains through procurement and distribution of goods. Secondly, to reduce the wide disparity between internal and external prices, export duties were levied or increased. These measures steadied the general trend of prices, but when the Chinese intervened in the Korean War, prices started rising again till the index went up to 462 in April 1951.

The fight against inflation was carried on steadily during the whole of this phase. In this fight, the Government was helped by two main factors: (a) Surplus budgets instead of deficit budgets at the Centre and in the States. (b) Increase in industrial and agricultural production. Raw cotton and jute, wheat and rice showed a great increase. Cement, cotton, cloth, sugar, paper and steel all went in the same direction. As a result, controls and rationing were given up. (c) Money in circulation was kept within bounds.

How far successful?

The movement of the price index from 244 in 1945 to 462 in mid-April 1951 shows that the measures adopted by the Government to check prices had failed till then to achieve their objective. The price control administered by the Government was far from satisfactory. Black-markets, for most of the time, flourished with impunity. Other anti-inflationary measures also proved ineffective. A very serious objection could be taken to the persistence of the State Governments in their policies of social reform like prohibition in such financially tight times.

There is, no doubt, however, that the fall in price index after May 1951 and more particularly in early 1952 was brought about by the anti-inflationary measures taken by the Government and the Reserve Bank though international factors also contributed to this fall.

In fairness to the Government, it must be said that the task it had been faced with was very formidable indeed. The Government could not suddenly deflate currency to substantially bring down prices, since such a step might have brought about depression and ruined our industry. Nor does it lie with the Government to multiply production in a short time. It is inevitably a slow process.

Some factors, both internal and external, beyond Government's control, also acted adversely. Natural calamities like floods, droughts, etc., enlarged the food deficits. Shortage of jute and cotton consequent on the stoppage of trade with Pakistan (as a result of our devaluation and their non-devaluation) raised cloth, jute and other prices. There was the difficulty of obtaining other industrial materials and equipment from abroad.

Labour unrest and transport bottlenecks also hampered government efforts to lower prices. The Korean War and stockpiling programme of many nations raised world prices. Their impact on Indian prices could not be resisted.

The success of the Government's efforts also depends on the co-operation of the people and the integrity of the Government officials. The absence of these, in a measure necessary to achieve the objective, is an important factor for which an allowance must be made while assessing the success of the Government's anti-inflationary policy.

The anti-inflationary measures since 1951 showed a better record of achievement than those taken before that. As experience was gained, the measure of success increased. We can sum up by saying that the Government has been, and is, struggling heroically to hold the price line with varying measures of success depending on the elements in the situation.

During 1951 there was considerable credit expansion amounting over 25%. Bank credit continued at a high level even during the slack season. The Government, therefore, took the important step of raising the Bank rate from 3 to 3½% in November 1951. It resulted in a very big fall in bullion prices in March 1952. There was a parallel fall in the prices of spices, cotton, sugar, oils, and oilseeds in the wholesale markets all over India.

The Bank rate was again raised in May 1947 to 4%. Besides putting a blanket on credit expansion, the increase in Bank rate gave the Reserve Bank greater control over the money market in India which has resulted in eradicating a large number of faults in the working of banks which were previously there.

Recent Price Situation

The rising trend of commodity prices, which has been in evidence since June 1955, has continued since then except in 1957-58. The decline in prices during August-February of 1957-58 was due principally to (a) the substantial increase in agricultural output in 1956-57, (b) the disinflationary fiscal and credit measures, (c) larger imports of foodgrains, (d) the adoption of food control measures, (e) the recessionary trends abroad, and (f) fall in demand for the goods of the principal manufacturing industries. Over the Second Plan period, the general price level recorded a rise of 30% which contrasted with a decline of 18.4% during the First Plan period. After continuous deterioration in the previous three years, the general price situation showed some improvement in 1961-62. Although the general index (weekly) of wholesale prices (1952-53=100) rose to a new all-time high of 130.1 for the week ended July 22, 1961, it declined thereafter more or less continuously touching a low of 122.6 in the week ended December 30, 1961. It stood at 122.9 at the end of March 1962. It advanced to an all-time high of 131.2 during the week ended August 4, 1962. It remained at a plateau till mid-Novem-

ber and then declined seasonally to a low of 125.0 for the week ended December 15. From January 1963, the index once again tended to look up rising to 127.3 for the week ended March 30, 1963 and 139.3 for the week ended March 28, 1964. Over a year, the general index of wholesale prices showed a rise of 9.3% in contrast to a fall of 2.6% in 1961-62 and a rise of 3.7% in 1962-63.

There was persistent deterioration in 1963-64. The wholesale prices increased by 9.1% in 1963-64 and by another 14% during the first ten months of 1964-65. The All-India Consumer Price Index for Working Class rose from 130 in March 1963 to 143 in March 1964. The general price level during 12 months ending September 5, 1964 was higher than of any other comparable period since the last world war. The average increase during this period was 14% as compared to the immediately preceding 12 months. The price of food articles rose by 23.6%, of industrial raw materials by 21.9%, and manufacturers by 4.7%. The price of wheat rose by 51 7%. The rise, according to Reserve Bank Bulletin, October 1964, reflected an imbalance between the rate of growth in the liquidity in the economy and the increase in real output. The money supply in this period increased by 11% owing to large credit expansion.

The rise during the last 5 years is the third phase of rise since 1950. This phase can be distinguished from earlier phases in certain respects: (a) it has lasted much longer; (b) unlike the Korean boom of 1950-51, when the food index had shown comparatively little change, during the current phases food prices have shown a sharp rise, (c) whereas the manufactures group also had recorded a significant increase during 1950-51, in the current trend it has shown comparatively small rise; (d) whereas the 1950-51 rise was 'imported' the 1955-57 rise is primarily of domestic origin; (e) the general index at the end of March 1957 was about 9% below the Korean peak level As in the previous year, the rise occurred mainly in three groups, viz., food articles, industrial raw materials and semi-manufactures. The manufactures also recorded a rise, whereas they showed a decline in 1955-56.

However, the rise in prices in India has been less than in many other countries. The percentage of increase in wholesale prices between 1948—1958 was about 13% against 172 in Japan, 98 in Australia, 86 in France, 66 in U.K, 18 in West Germany, 17 in Canada, and 14 in U.S.A.

Causes. As for influences responsible for this trend of prices, it seems that the stimulus for the price rise came, by and large, from the steadily accelerating tempo of the investment programme from year to year, superimposed upon some decline in agricultural output. The volume of voluntary savings has been insufficient in relation to demand with the result that deficit-financing in the public sector and reliance on bank credit in the private sector has been increasing. There has, therefore, been a growing pressure of demand on the economy, which has been

reflected in a rise of prices. There is said to be substantial hoarding by the producers themselves, thus aggravating the rise in foodgrain prices. In a boom phase, there is a general tendency for the overbuilding of stocks by all sections, producers, traders, manufacturers and also consumers. The phenomenon has been in evidence in India. The main causes have been substantial rise in Plan outlay, budgetary deficits, drastic import cuts and shortfall in food production during 1957-58.

Inflationary pressure on the economy is indicated by the fact that note circulation increased from Rs. 2,211 crores in February 1963 to Rs. 2,442 crores in February 1964. The scheduled bank credit at the same time stood at Rs. 1,712 crores as against Rs. 1,512 crores a year earlier. The increase of funds has not been matched by corresponding production and cost inflation has meant lower production at higher cost. The cost of production has been increased by increasing taxation. Perpetual struggle by the people to catch up with the prices must necessarily lower their morale. Beneficial measures of social security and increase in dearness allowance must be neutralised by rise in prices unless production increases at a faster rate than the rise in prices.

According to Morarji Desai, the then Union Finance Minister, among the various factors responsible for the recent rise in prices are: (1) increase in the rate of investment; (2) rise in population and the consequent rise in demand; (3) failure of agricultural production to rise with the increase in demand for food and raw materials; and (4) restriction on imports leading to reduction in supplies of certain commodities.

Deterioration of the price situation reflected mainly the failure of agricultural production to show any increase and there was shortage in output of raw materials (cotton, jute and oilseeds). Also, agricultural and industrial production was inadequate in relation to the pressure of aggregate demand in the economy, engendered by the sustained high tempo of investment activity and the continued expansion in money supply and bank credit.

Remedies. The rising trend of prices called for reinforcement of official policies on the monetary as well as non-monetary fronts. On the monetary front the Reserve Bank pursued the policy of general credit controls as a supplement to selective credit controls. But all the same this policy was operated in a flexible manner so as to meet the changing needs of the situation. On the non-monetary front, apart from continued efforts to step up production of essential goods the measures adopted included: (i) measures to secure large imports of foodgrains as well as essential industrial raw materials. Of the greatest importance in this connection is the Indo-U.S deal of May 1960 which provided for an import of 17 million tons of foodgrains over the next four years. It lifted all fears of shortage. Foodgrains are thus being imported in large quantities; (ii) the continuance of ban on forward trading in foodgrains; (iii) steps to facilitate freer

movement of foodgrains from surplus to deficit areas through a widening of the existing zonal arrangements; (iv) controlled distribution of available stocks as in the case of raw jute and raw cotton; (v) further enforcement of controls directed toward curbing unhealthy speculative excess in commodity markets; and (vi) voluntary action by industry (a) to bring about a reduction in prices and (b) to fix maximum prices as in the case of raw jute and to make suitable adjustments in the production programmes. These measures have had the desired effect to some extent. The rise in prices was arrested.

The task of holding the price line gained a new urgency following the declaration of the emergency and the gearing of the economy to meet the increased requirements of defence and development. A wide range of measures were adopted to ensure stable conditions as well as to prevent speculators from taking undue advantage of the situation. On the monetary front, the emphasis was placed on regulating the availability as well as the cost of credit so as to discourage borrowing for non-essential purposes and facilitate lending to preferred sectors such as small-scale industries, co-operatives and exports. On the non-monetary front stress was mainly laid on preventing increase in the prices of essential commodities. With that end in view production was sought to be encouraged by providing incentives by ensuring minimum prices to cultivators. At the same time domestic supplies were augmented through liberal imports of wheat, rice and cotton. To ensure availability of supplies to consumers at reasonable prices, the number of fair price shops was increased, distribution was encouraged through consumer stores, larger quantities of wheat and sugar were released, licensing control on wholesalers of foodgrains was tightened and co-operation of commercial bodies was secured for regulating their activities and improving their trading practices through voluntary sanctions. Under the Defence of India Rules, the Essential Articles (Price Control) Order 1963 was issued in order to curb profiteering through the unwarranted price increases. But the main difficulty arises from the need to reconcile the contrary objectives of holding the price line and maintaining incentives which in some cases imply price increases.

Besides these measures, it is necessary to further tighten credits by banks to foodgrain dealers and to take steps to cut down non-development outlays as much as possible so that the price situation is not aggravated. It is also important that hoarding, profiteering and speculation be dealt with as anti-social activities and the distribution machinery should function in the best interest of the community.

We in India are now very much aware of the evils and dangers of inflation. "The inflationary process entails gross hardships through rising prices on millions of people in the subsistence strata. It accentuates economic inequality, widening the gulf between the rich and the poor. It leads to distortions in the invest-

ment pattern and disrupts the development process through economic misdirection and dissipation of resources" (B. K. Madan).[1] It is, therefore, very essential that some measures are adopted in order to prevent the inflationary process from getting into motion. For this purpose it is necessary to go to the very root of the matter. "The seeds of inflation lie in what is called the inflationary gap or the gap between incomes generated on the one hand and the value, at existing prices, of the goods and services available for purchase on the other."

What is, therefore, required is an action on two fronts: increase the supply of available goods and services on the one hand, and syphoning off from the public a large part of the additional purchasing power on the other. We should so regulate the net addition made to the people's income available for spending that this is not greater than the increase in real national product, i.e., the available supply of goods. The available supply of goods can be increased by stimulating production in all possible ways, i.e., by providing incentive to industry and agriculture and also by distributing the available supply in a proper manner through fair-price shops, co-operatives, etc. Controls on prices, production and allocation of commodities and supplies can ensure equitable distribution of commodities which are temporarily scarce. This is an action on the 'goods' front.

But for holding down the general price level fiscal and monetary measures are of crucial importance. The Government must impose additional taxation so as to draw money away from the people. For instance the new tax proposals in the Union Budget 1963-64 together with Compulsory Deposit Scheme were expected to bring in between Rs. 325 to Rs. 350 crores into the Central and State treasuries together. To control the money supply borrowing and small saving schemes can also prove very helpful. The fight against inflation also requires strict control over public expenditure. Monetary and credit policy too has a role in the restraint of inflation. A steady increase in bank credit is essential to maintain an increasing flow of production. But if there is excessive reliance on banks as against the capital market and owned resources of industry and trade, it will have an inflationary effect.

"To sum up, the safeguards against inflation in the coming months and years lie in a steady boost to production and productive efficiency through fuller and more effective employment of our resources. They consist, besides, in the deft use and skilful adaptation of fiscal and monetary tools so as to prevent too excessive a pressure of demand, supplemented at strategic points by direct controls on allocation of scarce resources so as to maintain essential supplies at reasonable prices."

The measures that can be taken to ensure stability of prices of basic consumer goods include:—

1. Dr. B. K. Madan: Safeguards against Inflation (Reserve Bank Bulletin, April 1963).

(i) Restraint on non-essential outlays;

(ii) cost reduction;

(iii) implementation of quick-maturing projects;

(iv) increased supply of essential consumer goods and services;

(v) State control on distribution;

(vi) promoting the availability of scarce resources for priority uses;

(vii) increasing domestic savings; and

(viii) reduction of disparities in incomes.

Recent price rises have caused hardship to large numbers of people. Unless new incomes are converted into savings and investments, the traders will distort the new economy and aggravate its imbalance.

The Government sought to meet the situation by limiting the scale of deficit financing and avoiding large increases in indirect taxation in 1963-64 budget on domestically produced items of mass consumption. Also, larger imports of rice were arranged and larger quantities of rice and wheat were released from Central stocks to scarcity affected States and the number of fair price shops was increased. But it must be recognised that apart from these remedial measures, the primary approach to price stability has to be in terms of stimulating production and productivity.

Price Policy

In order to determine the line of price policy to be followed in India, it is necessary to recapitulate all that has happened in the field of prices so far in recent years. It is an admitted fact that the rise in prices has been mainly due to the pumping of notes into circulation during war and early post-war years. At the moment, we are not concerned with the causes of this prime pumping. All we are concerned with at the moment is to know that it resulted in inflation.

The remedy is not easy. "Gallopping inflation" may wholly disrupt the economy of the country as in China. If prices are depressed too quickly, mills and factories may close down leading to wholesale unemployment and economic depression.

All the same no country, however wise or strong, has been able to reach the pre-war level of prices. We have, therefore, to accept the existing situation of high prices and take steps first of all to check prices from further rise and then to increase production and lower cost as rapidly as possible. The latter will automatically bring about a fall in prices in the long run but prices should not be such as will discourage production or not give fair wages to labour.

In order to achieve these purposes the Government of India took the following steps:—

(a) to cut out deficit finance both at the Centre and the States. However, as prices were under control deficit-financing was advocated to finance the Second Five-Year Plan.

(b) to increase revenue as far as possible through taxation, direct or indirect;

(c) to produce more food, raw materials and consumer goods;

(d) to raise loans from the public for development purposes;

(e) to restrict bank credit so as to check speculative activities; and

(f) to obtain loans and credits from outside sources, e.g., U.S.A., I.B.R.D.

All these devices have been put into operation, but in spite of efforts in various directions there has been no fall in prices. Cost inflation prevailed and our exports started falling. This resulted in huge deficits in trade and led to devaluation of the rupee in terms of dollar. This step undoubtedly corrected the balance of trade for the time being but created a tendency towards higher prices. In November 1951, the unusual step of raising of the Bank rate was also taken. Wholesale prices started falling. The wholesale price index for the week ended March 1, 1952, stood at 399 against 458 in April 1951. Through reduction in export duties Government tried to maintain exports and to earn foreign exchange. In 1956 and 1957 there was again rise in prices due to cuts in imports of consumer goods and shortage of foodgrains.

The country struggled hard to implement the Second Five-Year Plan after achieving a large measure of success in the First Plan. Now the Third Plan has been launched and the total outlay has been estimated at Rs. 10,400 crores. Injecting so much money into circulation must raise prices. The Government, therefore, proposes to hold prices at reasonable levels with all the resources at its command—producing more and liberalizing imports. Among various measures adopted by Government are restriction of credit for speculation, increased imports of food, refraining from local purchases of food, control of margins in futures of raw materials and increasing production.

Our objectives may then be summed up as below:—

(a) to stabilize prices at reasonable levels;

(b) to check inflationary trends through increased production and to maintain prices at levels which cover cost including fair wages, and leave the producer a sufficient margin to provide incentives for production;

(c) to give relief to the distressed middle classes in order to win their active co-operation for overall planning. Thus during

the years 1952-54, controls over all goods were given up. Procurement of foodgrains and rationing were also discarded. Inter-State movement of foodgrains was thrown open. So long as there was a relative scarcity of goods, rationing and controls were maintained. There is no hesitation to import commodities if they fall short, as was the case with sugar in 1953. Deficit-financing has no terrors for the Government as the Reserve Bank has complete control over credit expansion.

In recent years, the Government policy has laid special emphasis on holding foodgrains prices in check. The Government action in this connection included: (1) the maintenance of foodgrains imports at a high level, (2) the extension of internal procurement and an appreciable stepping up of governmental purchases of foodgrains for release through fair-price shops, and (3) further measures to curb hoarding and profiteering including the continuance of selective credit controls and the fixation of minimum controlled prices, etc. State trading in foodgrains was also introduced in April 1959. The Forward Market Commission took measures to restrain the rise in prices of oilseeds. Steps were also taken to check the rise in prices of 'gur' and sugar. In 1961-62, in the context of favourable turn in the price situation, price policies were readjusted consistently with the need for maintaining overall stability in the economy. The Reserve Bank's general credit control was continued but there was a measure of relaxation in the selective credit controls in line with the supply position and prices.

Price Policy for the Third Plan. The Second Plan was characterised by a persistent upward trend in prices. Over the five-year period, the rise in the general index of wholesale prices has been about 30 per cent. Food articles as a group have gone up by some 27 per cent; industrial raw materials by 45 per cent; manufactures by over 27 per cent.

The major explanation of the continued upward trend in the wholesale prices in the Second Plan is entirely the rising pressure of demand resulting from the growth of population and money. income supply factors have also played their part from time to time.

The Third Plan Report points out that although the production potential of the country has been strengthened considerably both in agriculture and industry and the scheme for mobilising the financial resources required for the Third Plan postulated deficit financing on strictly limited scale, the possibilities of significant and even disturbing price rise cannot be entirely eliminated.

Firstly, there is the usual uncertainty in regard to monsoons. Secondly, the various restraints on consumption implicit in the Plan may not operate to the full extent. Thirdly, while the Plan envisages a certain balance between the rates of growth in various sectors, some imbalance is almost certain to appear from time to time. It is necessary, therefore, to keep a close watch on prices and to be prepared in advance with strategy for corrective action.

A major constituent of the price policy is fiscal and monetary discipline. Fiscal policy must be directed to mopping up excess purchasing power which tends to push up demands above the level of available supplies. Public enterprises have an important role in enlarging public savings. They must, therefore, operate at a profit and maintain a high standard of efficiency required for their purpose.

Monetary policy has to go hand in hand with fiscal policy by regulating the pace of credit creation through banks. Commercial policy can also be used to an extent to overcome domestic shortages. Without adequate fiscal and monetary discipline other regulatory measures cannot have the desired effect.

But in order to secure the right relationship between various prices or to prevent undue hardships to low and fixed income groups, it may be necessary to have physical allocations and direct control in certain sectors.

The prices of what may be called basic essentials must be held reasonably stable; in regard to commodities that could be classed as comforts or luxuries, a rise in prices may have to be tolerated.

Two main objectives of price policy are:

(a) to ensure that the movement of relative prices goes with the priorities and targets which are being set in the Plan;

(b) any considerable rise in prices of essential goods that enter into the consumption of low income groups is prevented.

In a developing economy with increasing investment prices may rise beyond the limits of tolerance, unless specific and deliberate action is taken to keep them in check. Appropriate fiscal policy, suitable income policy and suitable price policy are needed to cope with the situation. The appropriate price policy for a developing economy has two objectives: (a) stabilisation of prices and (b) promotion of economic growth. A suitable fiscal policy should cut down expenditure and increase revenue. A suitable income policy must prevent concentration of income and wealth in a few hands. A suitable interest policy must promote savings and investment. Private expenditure must be regulated so as to prevent undue pressure on limited supply of consumer goods. Steps should be taken to fix foodgrain prices which are fair both to the producers as well as consumers. Relative prices must be maintained at a level which assists the direction of resources towards the production of desired targets. Positive steps must be taken to tackle the problem of unaccounted or black money. Special attention must be given to the production, purchase, movement, sale and distribution of foodgrains. The essence of the price policy for a developing economy is to promote economic growth and make room for certain measure of equality thereby preventing social stresses and conflicts.

In short, **the price policy should be geared to economic growth, equality and social justice.**

CHAPTER XXX

Public Finance

The nature of Indian financial system affects vitally the various aspects of the country's economic life. Conditions of trade, industry and agriculture, in so far as they depend on the support and guidance of the State, must necessarily be influenced by the financial structure of the country. If the people are illiterate, it is only because the State cannot spare sufficient money to remove illiteracy. If the roads are bad and insufficient, hospitals ill-equipped and inadequate in number, if there are slums, if the mortality rate is high, they are all due to the fact that sufficient money is not forthcoming to accomplish these very desirable objects. The system of public finance, therefore, has an intimate bearing on economic life of the country

Besides, public finance in modern times has assumed a new importance. It does not merely deal with the ways in which the State raises revenue and the directions in which it spends it. It has, on the other hand, a social purpose behind it. It is used as an instrument to even out the uneven distribution of wealth in the community, and thus reduce inequalities of wealth, income and opportunities.

The system of public finance in India is determined by its predominantly rural character, isolated villages, dependence on agriculture with precarious rainfall, poverty and the low standard of living of the masses, inequalities of wealth distribution, traditions of centralized administration and, above all, our constitutional position.

Allocation of Revenues—the Background

The Indian fiscal system passed through a process of financial decentralisation between 1919 and 1933. The Reforms Act of 1919 put the financial relation between the Central Government and

the Provincial Governments on an entirely new basis. The divided heads of revenue were abolished and a clear-cut separation was effected between the resources of the Central Government and those of the Provincial Governments.

This distribution of resources between the Central and the Provinces created a deficit of about Rs. 9 crores to the Centre, and gave a surplus of about Rs. 18 crores to the Provinces. Provincial contributions were necessary to make up this deficit till the growth of Central resources made the deficit disappear. This was done under **Meston Award.**

The Act of 1935 gave two separate lists of sources of revenues, one for the Centre and the other for the Provinces. However, the proceeds of some taxes were to be shared between the Centre and the Provinces, e.g., income-tax and jute export duty. Sir Otto Niemeyer was appointed to recommend a suitable basis for sharing of the proceeds of these taxes as between the Centre and the Provinces. This was done under **Niemeyer Award.** In making his recommendations, Sir Niemeyer steadily kept two principles in view: (1) that the financial stability and credit of Central Government were of primary importance; and (2) he wished to recommend such financial aid to the Provinces that they might be adequately equipped at the start of the provincial autonomy. His sole aim was to do away with the chronic deficits in certain Provinces and "to put the tottering Provinces on their legs," or to launch provincial autonomy on even keel.

The partition of the country necessitated further adjustments in the Niemeyer Award. Shri Chintaman Deshmukh, formerly Governor of the Reserve Bank and later the Finance Minister, was invited by the Government of India in November 1949 to suggest a suitable allocation of income-tax and export duty on jute. This was done under what is known as **Deshmukh Award.** Shri Deshmukh did not recommend any new principle of allocation. His was only a limited objective, viz., the distribution of the additional funds which had become available consequent on the division of the country. Any drastic departure would have upset the existing financial equilibrium

Present Allocation

The new Constitution of India practically accepts the allocation laid down in the 1935 Act. The taxes within the Union jurisdiction, enumerated in List 1, Seventh Schedule of the Constitution, are taxes on income other than agricultural income; corporation tax; customs duties; excise except on alcoholic liquors and narcotics; estate and succession duties other than on agricultural land; taxes on the capital value of assets (exclusive of agricultural land) of individuals and companies; rates of stamp duty in respect of certain financial documents; taxes other than stamp duties; on transactions in stock exchanges and futures markets; taxes on sales and purchases of newspapers and on advertisements therein; taxes on railway freights and fares; terminal taxes on

goods and passengers carried by railway, sea or air; and taxes not specifically enumerated in the State or Concurrent Lists. Residuary powers vest with the Union Government.

It will be seen that important and relatively elastic resources have been given to the Central Government, but welfare functions have been assigned to the States. This creates a gap between the latter's resources and responsibilities. That is why besides the taxes levied and collected by the Union and by States for their respective purposes, there are certain revenues which are shared between the Union and the States:

(a) There are duties levied by the Union but collected and appropriated by the States, e.g., stamp duties, duties of excise on medicinal and toilet preparations.

(b) There are taxes which are levied and collected by the Union but which are assigned to the States within which they are levied, e.g., succession and estate duties in respect of other than agricultural land, terminal taxes on goods and passengers carried by railway, sea or air; taxes on railway fares and freights; taxes other than stamp duties on transactions in stock exchanges and futures markets; and taxes on sale and purchase of newspapers and advertisements therein.

(c) There are taxes like the tax on incomes (other than agricultural income) which are levied and collected by the Union but are distributed between the Union and the States in a prescribed manner.

(d) There is, finally, a category of taxes which are levied and collected by the Union but may be distributed between the Union and States, viz., the excises on tobacco, matches and vegetable products. The Union may, for its own purposes, levy surcharges on taxes levied and collected by the Union but assigned to or shared with the States.

The Constitution provides, as a final balancing element, for grants-in-aid of the revenues of the States by the Union.

From the preponderant weight given to population as a criterion of distribution of income-tax and allocation of excises, we can conclude that the emphasis has shifted from **origin** to **needs** as a factor determining financial relations between the Centre and the units.

Is it in conformity with the principles of federal finance?

The Central Government in India, like other Federal Governments, must play an important role in initiating, guiding and co-ordinating schemes of social amelioration. We must bid good-bye to the ideas of dwindling and static functions of the Central Government and mutual exclusiveness of the Centre and the States.

Although the Indian financial system wears **a thin veil of federal finance, yet the Centre in India always has had powers of direction to ensure uniformity. And this is as it ought to be.** India is face to face with stupendous economic problems for the solution of which co-ordinated efforts on the part of the Centre and the units are absolutely essential. Two things are necessary: States' need for additional revenue must be fulfilled and uniformity in the Central financial field must be preserved. It is, therefore, very essential to evolve a co-ordinated policy on taxation, expenditure and borrowing through consultations and, if necessary, through legislation.

In a country with the federal type of constitution which India has under the new constitution, the allocation of financial resources between the Centre and the States has to be made on the recognised **principles of federal finance.**

The two most important requisites of federal finance are:

(i) **Administrative convenience and economy,** i.e.,—taxes should be levied and collected by that authority which is better suited to do it.

(ii) **Fiscal self-reliance of the Centre and the Units**, i.e., both should have sufficient funds for their immediate and developmental needs.

Against this theoretical background, we shall now see, firstly, how far the allocation of financial resources in the constitution accords with the theoretical requisites of Federal Finance, and, secondly, how far it is adopted to the peculiar conditions obtaining in India and to meeting the special needs of the country.

The new allocation is practically the same as had been made under the Government of India Act of 1935. **It is good from the point of view of administrative convenience and economy.** The levy and collection of taxes of an all-India character, such as customs, corporation tax and certain excises, has been entrusted to the Centre. The centralisation of these taxes ensures uniformity as well as efficiency. Likewise, taxes of State administration, e.g., land revenue, irrigation, registration, have been put on the State List.

But on the scope of the second important requisite of Federal Finance, viz., **fiscal self-reliance,** the **allocation is very defective.** The revenues assigned to the States are mostly static and inelastic, e.g., land revenue and stamps. State excises are fast declining as earners of revenue and with the adoption of a policy of complete prohibition, this source will dry up. Forests require huge capital outlay before they can be expected to contribute substantial revenue. Thus, the State revenues are utterly inadequate for the satisfactory discharge of the functions of the State Governments, viz., the provision of social services on anything like the modern standards. The Centre has, on the other hand, been given such heavy yielders of revenue as income-tax, customs and central ex-

cises. The yield of central excises is likely to increase still further with the country's industrial development. Residuary powers have also been given to the Centre.

The allocation can, therefore, be criticised as **giving too much to the Centre and too little to the States.**

The enthusiasts of State autonomy are very bitter at this strong position of the Centre and the weak position of the States, under which States will always have to look up to the Centre and beg for assistance. Without financial resources, autonomy is merely in name; as has been remarked, "autonomy will be a myth and federation a misnomer."

This is, however, one point of view. As against it we know that in our country there is at present an imperative need for the rapid development of our backward economy. The problems involved in such economic development are so big and formidable that they are beyond the capacity of State Governments and can best be tackled on an all-India basis. The Centre must, therefore, have strong financial position so as to be able to go ahead with an effective utilization of the country's resources. What further strengthens this view is the recent alarming record of States in the matter of their financial policies. Many of them have thrown away excise revenue in pursuit of their ideological fad of prohibition, and have also resorted to taxation which has disturbed Centre-State trade, e.g., through ill-conceived sales tax.

Then, this stronger position of the Centre in India is not different from, but is quite in keeping with, the clear trend in all other countries which have federal constitutions. Integration rather than separation seems to be the rule. The central governments have of late been playing greater and greater role in nation-building or developmental activities. In India also we presume that the Central Government will not dissipate its better financial position, but will always be ready not only to guide and co-ordinate the State schemes of education, public health, etc., and of economic development, but also to undertake such schemes herself on a large scale. Moreover, it will help the States, through grants and subsidies, as required by changing situations. After all, it is not the letter of the constitution that is important, but the spirit in which it is carried out. The record of the Central Government since the inauguration of the new constitution, and especially for the last few years abundantly justifies the above presumption.

A suggestion may also be made in this connection. The Central Government should set up an Inter-State Finance Council which should provide the machinery for consultation and co-ordination among the States as well as between the Centre and the States. With such a machinery the country's policy can be so designed as to secure an effective utilization of its human and natural resources.

Thus, on the whole, the financial system under the Constitu-

tion can be regarded as being in the best interests of the country's economic development.

As a result of the subsequent Finance Commissions, the allocation as laid down in the Constitution was modified, inter alia, in respect of the sharing of income-tax and union excise duties. The Commissions also recommended additional assistance to the States in the form of grants-in-aid. According to the First Finance Commission (1951-52), 55% of the net proceeds of the tax on income, other than corporation tax, were distributed among the States, 80% on the basis of population and 20% on the basis of collection. The Second Finance Commission (1956-57) raised the States' share to 60%, 90% on the basis of population and 10% on the basis of collection and the Third Finance Commission (1961-62) raised it to 66-2/3% and in the matter of principle of distribution reverted to the recommendations of the First Commission, i.e., 80% on the basis of population and 20% on the basis of collection.

As for the sharing of the Union Excise Duties, the First Finance Commission recommended 40% of the net proceeds to be distributed among the States on the basis of population. The Second Finance Commission increased the range by the inclusion of duties on several other commodities, the share of each State being fixed at 25%. The Third Commission reduced the States' share to 20%, but increased the number of shareable excises from 8 to 35.

Finance Commissions

Under Article 280 (i) of the Indian Constitution, the President is required to constitute, within two years from the commencement of the Constitution and thereafter on the expiry of every fifth year, a Finance Commission. The Finance Commission is (a) to determine the share of the States in the centrally administered taxes, (b) to consider applications for grants-in-aid from States and report thereon, and (c) to consider and report on other matters referred to it by the President.

First Finance Commission

The First Finance Commission, appointed in November 1951 with Shri K. C. Neogi as Chairman, made recommendations regarding distribution of taxes and grants-in-aid to the States: (1) an increase in States' share of the net proceeds of income-tax from 50% to 55% of which four-fifths would be allocated on the basis of population and the balance on the basis of collection; (2) allocation to the States on a population basis, of 40% of net proceeds of Union excise duties on tobacco, matches and vegetable products; (3) an increase in grants-in-aid to Assam, Bihar, Orissa and West Bengal in lieu of a share in the export duty on jute and jute products; and (4) additional general grants-in-aid to certain States which were in need of assistance and special grants to certain less developed States for expansion of primary education facilities.

While making recommendations, the Commission kept in view not only the imperative need for a substantial augmentation of the State revenues, but it had also to take into account the ability of the Centre to assist the States. It emphasised that the prosperity of the States must rest on the solid foundation of a reasonably strong and financially stable Centre. While the States have large and expanding responsibilities for the welfare and development of the people, the capacity of the Centre to make additional resources available is conditioned both by the amount of revenue it can raise and by its own essential needs, which, in the ultimate analysis, are the needs of the country as a whole.

Accordingly, in drawing up the scheme of assistance, the Commission kept in view three main considerations: (i) The additional transfer of resources from the Centre must be such as the Centre could bear without undue strain on its resources, taking into account its responsibility for such vital matters as the defence of the country and the stability of its economy. (ii) The principles for the distribution of revenues between the States and the determination of grants-in-aid must be uniformly applied to all States. (iii) The scheme of distribution should attempt to lessen inequalities between the States.

Second Finance Commission

The Second Finance Commission was appointed in 1956 with Shri K. Santhanam as its Chairman to examine de novo the problems considered by the last Finance Commission. The Second Finance Commission recommended that the States' share should be raised to 60% (it was 55% according to First Finance Commission) and that the distribution among the States should be based 90% on population and 10% on collection whereas according to the First Commission it was 80% on population basis and 20% on the basis of collection. The Second Finance Commission recommended that the States' share out of the Union Excise Duties should be reduced to 25% of the net proceeds whereas it was 40% according to the First Commission.

The Second Commission also recommended principles regarding the sharing of Estate Duty, Tax on Railway Fares and Sales Tax. It also recommended grants-in-aid payable to the jute growing States till March 31, 1960, in lieu of the shares of the export duty in jute and also substantial grants-in-aid to 11 out of 14 States under Article 275 (1) of the Indian Constitution.

Third Finance Commission

The Third Finance Commission with Shri A. K. Chanda as its Chairman was appointed in December 1960 and it reported in December 1961. The Union Government accepted the recommendations of the Commission. The following are the main recommendations:—

Sharing of Income-tax. The Commission raised the States' share of Income-tax from 60 to 66-2/3%. The percentage of the

Union Territories has been raised from 1 to 2½. The recent amendment of the Income-tax Act has classified the tax payable by companies as corporation tax thus removing it from the divisible pool. Another source of State revenue was cut off by the repeal of the Act imposing on railway passenger fares. Thus the States had to be compensated. It is right, therefore, that their share of income-tax has been raised to 66-2/3%.

The share of each State has been determined now 80% on the basis of population and 20% on collection. The view of the Second Finance Commission, which had fixed 90% on the basis of population and 10% on collection, was that in due course population should be the only basis and that the factor of collection should be eliminated altogether. The Third Finance Commission rejected the view and has gone back to the original allocation on the basis of 80% for population and 20% for collection. The reason is that there is a core of incomes which can be regarded as purely local. Besides the industrialised States which collect a larger share of income-tax have to maintain higher level of administrative and social services and may, therefore, legitimately claim some advantage of collection.

Special Assistance. A special purpose grant of Rs. 9 crores for improvement of road communications will be paid to 10 States, viz., Andhra Pradesh Rs. 50 lakhs, Assam Rs. 75 lakhs, Bihar Rs. 56 lakhs, Gujarat Rs. 1 crore, Jammu and Kashmir Rs. 50 lakhs, Kerala Rs. 75 lakhs, Madhya Pradesh Rs. 1.75 crores, Mysore Rs. 56 lakhs, Orissa Rs 1.75 crores and Rajasthan Rs. 75 lakhs. This has been done because without special assistance, these States are not in a position to provide adequate roads.

Sharing of Union Excise Duties. At present under the Second Finance Commission recommendations, the States are entitled to 25% of the net proceeds of the Union Excise Duties on eight articles: matches, tobacco, sugar, vegetable product, coffee, tea, paper and vegetable non-essential oils. The Commission has reduced the percentage to 20, but it has increased the number of shareable excises from 8 to 35. In distributing the proceeds of these excises the Commission has continued population as the major factor, but it has also taken into account the relative financial weaknesses of the States, the disparity in the level of development reached and the percentage of scheduled tribes and backward classes. The entire net proceeds of additional excise duties on mill-made textiles, sugar and tobacco, which were levied in replacement of States sales tax, accrue to the States.

The Commission has not suggested any change in the principles governing the distribution of estate duty. The percentages assigned to each State, however, have been revised on the basis of population figures as indicated in the 1961 census.

The distribution of the annual grant of Rs. 12.5 crores payable to the States in lieu of their share of tax on railway passenger fares has been recommended on the principle of compensation

to place the States broadly on the same footing as they were before the tax was abolished with effect from April 1, 1961.

Grants-in-Aid. The Commission recommended an annual payment of a total grants-in-aid of Rs. 110.25 crores to all the States other than Maharashtra of which Rs. 52 crores are to fill the revenue gap in the budgets of the State Governments and Rs. 58.25 crores towards 75 per cent of the revenue component of the State Plans. The Government accepted the recommendation for the payment of the revenue gap grant of Rs. 52 crores. This will mean that Andhra Pradesh will get Rs. 9 crores, Assam Rs. 5.25 crores, Gujarat Rs. 4.25 crores, Jammu and Kashmir Rs. 1.5 crores, Kerala Rs. 5.5 crores, Madhya Pradesh Rs. 1.25 crores, Madras Rs. 3 crores, Mysore Rs. 6.25 crores, Orissa Rs. 11.5 crores and Rajasthan Rs 4.5 crores.

The Third Finance Commission recommended the setting up of an independent commission to assess the tax potential of each State, review its tax structure and recommend rates under different heads of levies in the State list. The Commission would also go into the widening gap between the resources and functions of the States, brought about mainly by the plans and consider what adjustments, if any, should be made in the Union State financial relations which would add strength both to the Union and the States.

Fourth Finance Commission

The Fourth Finance Commission was set up in May 1964 under the chairmanship of Dr. P. V. Rajamannar. The Commission is to go into the entire question of the Centre-State financial relations and suggest a new structure and evolve a more scientific and realistic pattern of Centre-State financial structure for the Fourth Plan. A new financial structure is considered necessary to ensure maximum efforts both at the Centre and in the States not only for raising resources but also for utilizing them in the best possible manner during the Fourth and subsequent Plans.

The setting up of the Fourth Commission earlier has presumably been prompted by the urgent need to put the finances of the States on sound basis. The mid-term Plan appraisal is understood to have spotlighted the rather unsatisfactory financial condition of several States. According to the appraisal, the performance of many States in raising resources and effecting economy in expenditure has fallen far short of expectations. Several States are said to have depended excessively on Central assistance, having already drawn more than 65 per cent of such assistance for the entire Plan period. Many States are believed to have exceeded their limits for market borrowing and the ceilings for overdrafts from the Reserve Bank. Only a few have set up sinking funds to facilitate smooth servicing and repayment of Central loans. While screening the finances of the States, the Finance Commission will suggest ways and means to strengthen the position. Any changes in the sharing of the divisible

pool, which the Commission might recommend, will take into account the scope for replacing the sales tax by additional excise at least for some commodities like vanaspati, paper, cement and kerosene, merging of agricultural income-tax with income-tax, imposing a betterment levy and improving the profitability of public undertakings.

Tax Policy[1]

According to the Taxation Enquiry Commission, the objectives of a sound tax policy are: (a) improvement in distribution, (b) furthering development in the public sector, (c) improvement in production in the private sector, and (d) promotion of the stability in the economy.

(a) **Improvement in Distribution.** One of the important problems before the taxing authorities is to strike a balance between the objectives of achieving economic equality through tax mechanism and of maintaining unimpaired the flow of investment and savings which make for the continued progress of productive enterprises. Greater production and better distribution are both objectives of high importance in relation to general economic and social policy. For our country, in its present stage, increase in production is more important than improvement in distribution. All the same, the attainment of a wider measure of equality in incomes, wealth and opportunities must form an integral part of economic development and social advances. Instrument of taxation must be used as a means of bringing about re-distribution of incomes. It is necessary to reduce incomes at higher levels, but this process should be carried without undue adverse repercussions on private productive effort and enterprise.

But lessening inequalities through reducing higher incomes is only one form of fiscal operation. A complementary aspect of this policy consists of increasing public expenditure for economic development (agriculture and irrigation) and expansion of social services like education and health which will strengthen the position of the weaker sections of the community.

In order to tackle effectively the problem of inequalities, there should be an increase in progression in direct taxation which must be supplemented by measures of more effective tax enforcement. With a view to extending the coverage of the tax net, there should also be a further diversification of the structure of taxation through additional taxes on certain forms of luxury consumption. A widening of the taxation of wealth and property is also a possible means of reducing inequalities.

Equity in taxation indicates steepening of progression, but it may be repeated that it is necessary to strike a proper balance between the aim of lessening economic inequalities through the use of the tax instrument and that of sustaining and strengthening incentives to invest and to increase production. It is inevit-

1. Report of the Taxation Enquiry Commission, 1955, Ch. VIII.

able, therefore, that in an underdeveloped country like India, in seeking to accelerate the tempo of economic development, the tax system must suffer some departure from the strict basis of ability to pay, if the targets of economic development are to be attained within a reasonable period. However, element of unfairness and inequity as regards treatment of persons in similar situations should be reduced or eliminated.

(b) **Furthering Development.** In order to further development programme, the general emphasis of the tax system should be directed towards countering the natural propensities of the economy by restricting consumption and stimulating investment and saving. By means of taxation, resources available to the public sector can be increased by a significant draft on those available to the private sector. Taxation can be a most effective means of increasing the total volume of savings and investment in any economy where the propensity to consume is normally high. The tax system must have an adequacy of both depth and range if it is to promote an accelerated pace of development. Additional taxation of a wide range of luxury or semi-luxury products at fairly substantial rates, accompanied by broad-based taxation of articles of mass consumption at comparatively low rates, seems to be a major essential of a sound tax policy. In the field of direct taxation, higher rates in respect of personal income-tax should be accompanied by some relief for income which is saved and invested. That tax system will suit us best which would increase the resources for investment available to the public sector with as small a diminution as practicable of investment in the private sector. It should also exercise the largest practicable restraint on consumption of all classes.

The tax system should, however, conform to the taxable capacity of the people. Taxable capacity is a relative concept. It is determined by the factors like the purposes of taxation, the method of taxation, the administrative and political considerations, etc. Taxable capacity shrinks with impecunious and unpopular policies and ineffective governance and expands with beneficent and competent administration. Indian tax revenue at present amounts to 7-8% of national income. But this does not indicate the limit of taxable capacity. The increasing bias towards social and developmental services in Indian public expenditure is helping to raise the limit of taxable capacity. The feeling of identity with the Government since Independence also works in the same direction. Hence there is every justification to increase taxation.

Some people suggest that development programme should be financed not by taxation but by borrowing. But the Taxation Enquiry Commission have pointed out that financing a part of development programme by budgetary surpluses is a legitimate form of development finance. The other method is of deficit financing. But the tax system should be so adapted as to meet the dangers of deficit financing if and when they arise.

(c) **Improvement in Production.** The third objective of a good tax system is to improve production in private sector by providing suitable incentives with special reference to savings and investment. There is definitely a need for deepening and widening the coverage of our tax system. This means an increase in both direct and indirect taxations. Increase in commodity taxation undoubtedly affects consumption; increase in the progression of the direct taxes may affect savings and investment. Such taxes should be adopted which would reduce the consumption levels of the upper income groups in India. But the tax system should not be strained to a limit which will endanger the productive system of the country or impair the possibilities of expansion by affecting savings and investment. There should be tax concessions for encouraging industrial expansion.

As for the ratio between direct and indirect taxes, there is no special merit about any particular ratio. Both higher tax rates and wider tax coverage are necessary to raise larger revenues. The greater is the increase desired in tax revenues, the larger is the part that indirect taxes may have to play. Non-tax revenues which are akin to indirect taxes will also have to be enlarged.

(d) **Promoting Economic Stability**. The fourth objective is to promote economic stability and use taxation as a fiscal instrument for dealing with inflationary or deflationary situation. One way to achieve this is to devise a tax structure which will automatically counteract economic disturbances as they arise. The second is to make changes in the tax system in order to deal with inflationary and deflationary situations. The automatic capacity of the tax system to cope with economic fluctuations can be increased by placing greater reliance on progressive direct taxes. The yield of these taxes changes more than in proportion to changes in the tax-base as a result of monetary and price variations. Increased use of ad valorem commodity taxes also helps in the same direction owing to responsive movements in receipts with changes in prices. But administrative considerations may indicate preference for specific duties the receipts from which do not similarly respond to changes in economic condition. This imposes a limitation on the automatic capacity of taxes to deal with inflation and deflation.

The more general way in which tax system can operate to mitigate the effects of an inflationary or deflationary spiral is to reduce or increase the quantum of national income available for private expenditure by a policy of surplus budgeting or deficit budgeting respectively. Export duties can be levied for preventing foreign demand from exerting inflationary influence on domestic economy. In the case of falling prices, elimination of export duties and a substantial reduction in internal commodity taxation may help to stem the decline in foreign demand and to sustain domestic demand and thereby reduce the fall in producers' incomes. But in advanced countries, reliance is placed

more upon an expansion of public expenditure than on lowering of taxes, as an anti-depression device. In India also it is the direction of public expenditure rather than of taxation that more effective action can be taken to mitigate the effects of a deflationary spiral.

The tax system, if suitably adjusted, can have a significant effect also in slowing down the pace of inflation. In India, it was found possible to siphon off from private expenditure a considerable proportion of the increase in incomes resulting from wartime inflation and its post-war aftermath. Thus taxes that fall directly on the large additional incomes and commodity taxes that fall on the increase in general purchasing power resulting from inflation have a significant part to play in anti-inflationary policy. Special anti-inflationary taxes such as excess profits-tax and commodity taxes on articles both of general and luxury consumption can also be used for the purpose.

But taxation serves this purpose only within certain limits. If inflation has gone beyond limits, the only effective remedies are either to stop the increase in public expenditure and bring about a radical reduction in the same or to institute a drastic monetary purge by imposing a sort of capital levy on the holdings of money supply or liquid assets. When there is a pronounced inflationary trend, direct taxation can be screwed up and increased use of commodity taxes by a wider coverage and higher rates can also help to restrain consumption demand. When depression emerges the fiscal remedy would be to increase public expenditure and finance it by deficit till the economy recovers and prices and sales resume their pre-depression trends.

Critical Review of the Indian Financial System

No system of finance in the world can claim perfection, but the Indian system has more than its ordinary share of shortcomings. We shall consider its drawbacks from two points of view, viz., (1) defects in the system of taxation; and (2) defects in public expenditure.

The Tax System. The Indian tax system is haphazard, and has not been scientifically planned to bring about a progressive development of revenues. It has been moulded by the exigencies of time, the main concern being to balance the budgets. Little attention seems to have been paid to the incidence of taxation and its effects on production and distribution in the country. Budgeting, as Sir Walter Layton put it, has been 'tight fit' without any provision for unexpected and unforeseen expenditure which is, therefore, generally met by borrowing.

There is also an element of uncertainty in the Indian Budgets, the one big factor upsetting the calculations being the monsoons. The Indian budget is a gamble in the monsoons. Besides, our resources are inadequate and inelastic.

Another characteristic of our tax system is its traditional

conservatism. Taxes like the land revenue and excise revenue continue in spite of almost universal criticism.

We must also notice that, unlike other advanced countries, direct taxes in India play a secondary role, indirect taxes being the mainstay. The underdeveloped state of direct taxation is one of the gravest defects of our tax system. According to the Taxation Enquiry Commission, only 24% of total tax revenue collected by the Union, the States and Local Bodies in India consists of direct taxes whereas it is 55% in U.K., 70% in Australia and Japan and 80% in U.S.A.

Another serious defect is the regressive character of our tax system. It offends against the canons of equity or equality of sacrifice. It discriminates against the poor and in favour of the rich. Income-tax is the only tax paid by the rich, and even here the progression at a higher level is not so steep as it ought to be. Land revenue, customs, excise and even railway fares are in the aggregate contributed by the poor.

Allocation between Central, State and the Local finance is defective, so that the first starves the second, and the second in its turn starves the third.

Prof. Nicholas Kaldor describes the Indian tax system as both inefficient and inequitable. Its inefficiency can be judged from large-scale evasion of taxes. According to him it is far better to have a foolproof system of taxation with a moderate rate schedule than a system having the appearance of high progression but which could not be effectively or impartially administered. He has recommended the broadening of the tax base by the introduction of an annual capital tax, a tax on capital gains, a general gift tax and an expenditure tax. The Union Government has put into effect some of Prof. Kaldor's recommendations, though not fully. A capital gains tax, tax on wealth, expenditure tax, gift tax have been levied.

A daily paper complained against too much taxation thus: "First of all, there is income-tax on what you earn. Then there is the expenditure tax levied on what you spend, the wealth tax on what you save, the gift tax on what you give in your lifetime and finally the estate duty on what you are unwise enough not to give away or spend before you die. If, as has been well said, it is a matter of blunt fact that India has too little to earn, too little to save, too little to invest and too little to gift, then all this multiplicity of taxes seems like much of a muchness for nothing very much at all."

Criticism of Public Expenditure. Public expenditure in India has been steadily growing. But there is nothing alarming about it, provided the expenditure is wise and is calculated to develop the human and material resources of the country. And it is here that our public expenditure offends the most.

Public opinion in India has always been critical of the huge defence expenditure of the country. In this regard Independence

has provided no relief. Defence expenditure continues to absorb a large proportion of Central Government Revenues. In the 1960-61 Central Budget, defence absorbed Rs. 272.26 crores out of a total expenditure of Rs. 980.35 crores, i.e., 32% nearly of the total. The uncertain political situation in the world, the American military aid to Pakistan and threats constantly given by Pakistan over Kashmir and recently aggression by China have made it necessary for India to spend heavy amounts on defence to keep the country in a state of preparedness for all eventualities.

Another very objectionable feature of our public expenditure is the costly top-heavy civil administration. Our Civil Service is admittedly the costliest in the world. "The official salary—without reckoning allowances or other advantages—averages Rs. 3,000 per month as against the corresponding average of Rs. 1,000 in the United Kingdom."[1] A poor country like India can ill afford to pay such high salaries. Indianization has not been helpful in this direction; for Indians have also been given almost the same salaries as Englishmen. These high levels must be considerably scaled down. The highest salary in India that, in our opinion, corresponds to our per capita income may be put at Rs. 1,000 per mensem. The salaries at the other end are too low. A salary of Rs. 50 or Rs. 20 is a mere joke. Mr. Anthony, representative of the Anglo-Indian community in Parliament, said in the course of a debate held in November, 1953, "Our administrative machinery is unbalanced which at the top is overpaid and mentally famished and at the bottom is underpaid and morally famished". The minimum salary should be at least Rs. 100 p.m. The gulf between high and the low must be bridged as much as possible. We shall have to frame our own scales of salaries.

The debt services swallow up another big slice out of our revenues. When it happened to be an external debt, it is a dead loss. The net result of high military expenditure and top-heavy administration is that bulk of our revenues are consumed merely in running the governmental machinery and not much is left for beneficent activities. The result is that economic and social developments in the country are impeded. Expenditure of the Union Government on social services is only 5% nearly of the total expenditure. Again, "it should be possible to stimulate production and increase the welfare of the people by public expenditure designed to give greater economic security (by irrigation works, improved and more varied methods of cultivation, etc.), better physical well-being (sanitation, water supply, improved public health, etc.) and education. Indeed taxation may be the only practicable means of creating a better and more secure livelihoods."[2]

The total civil expenditure in 1948-49 was about Rs. 36 crores

1. K. T. Shah: *Review of Indian Finance, 1927-34*, p. 16 (foot-note).

2. Indian Statutory Commission Report, Vol. I, pp. 907-908.

and it was likely to be nearly Rs. 278 crores in 1960-61. However, it should also be borne in mind that in 1948-49, the expenditure under social and development services was only Rs. 19 crores. This had increased to Rs. 168 crores in 1959. The administrative expenditure had risen from Rs. 17 crores in 1948-49 to Rs. 55 crores in 1958-59. But the Government activities had become perhaps 10 times and the ratio of administrative expenses to revenue had remained constant at about 7%.

Considering expenditure of all Governments, Centre and States combined, on revenue account, we find that a substantial part of the expenditure, i.e., more than 50%, is incurred on Defence, Administrative items, Debt services and collection charges, or what may be termed non-developmental functions, and much less than half on social services and non-economic development and analogous functions. In the States' budgets, a substantial part of the outlay on development services is on Civil Works and next in importance are Agriculture, Forests, Industries and Supplies. Expenditure on Police exceeds that on any single item in the social services and economic development categories except Education and Civil Works. Police expenditure is even more important in the States' expenditure. The combined provision under Police and Jails, forming 12% of the total expenditure of all States, constitutes the largest item of States' expenditure. Our State is frankly yet a 'Police State' and it has still to enter that era of social services in which other countries have travelled far. The bulk of our public expenditure is not incurred in such a manner as to bring about economic development of the people and improve their taxable capacity. This, however, is being fast rectified now by rapid and planned economic development.

There is another aspect of our public expenditure to which we may also refer. The standards of services maintained by different States widely diverge. The poorer States which need the help of social services the most, are not able to do much in the matter on account of paucity of funds. Their services are practically starved. Such a state of affairs is not conducive to a harmonious and all-round development of the country.

We may now conclude by saying that a modern State is not merely a tax-gathering agency, or one for merely maintaining peace and security. Ethical and welfare considerations must dominate the financial system. Equity in finance is a counterpart of democracy Public finance should be designed as a means of social and economic reconstruction. Viewed in this light, our tax system needs overhauling and our public expenditure requires drastic changes. Reduction of land revenue and water charges, exemption of necessaries of life and mill stores from tariff and subjecting luxuries to a higher duty, taxation of agricultural incomes on a progressive scale, steepening of progression in higher levels of income-tax, lowering a bit of the minimum exemption limit and levying taxes on windfalls are some of the measures that must be taken sooner or later.

But if of necessity the tax system continues to be regressive, at least public expenditure must set this balance right. As a matter of fact, we should, in the present circumstances, look more to changes in public expenditure than to the tax system to undo the maladjustments of our financial system. Only a heavy reduction in the military and civil administration expenditure can enable us to introduce an element of social justice in our financial system. Public expenditure should be so designed as to benefit the peasants, the factory workers and other poorer sections of the community more and more.

CHAPTER XXXI

Central Finance

In the last chapter, we studied the factors which have influenced the Indian financial system, and we traced the development of the relations between the Central and State finance. The present chapter will be devoted to the study of Central finance. The revenues of the Government of India can be divided into tax-revenue and non-tax revenue. The tax-revenue is derived mainly from three sources, viz., taxes on income and wealth, Central excise duties and customs. The total revenue for 1964-65 (B.E.) was estimated (at the existing level of taxation) at Rs. 1,970.84 crores and the total expenditure at Rs. 1,876.75 crores, leaving a small surplus of Rs. 94.08 crores. In the budget for 1965-66, the revenue receipts were estimated at Rs. 2,353 crores and expenditure at Rs. 2,116 crores, leaving a revenue surplus of Rs. 236.61 crores at the existing level of taxation.

Central Revenues

Union Excise Duties

Central excise duties have now come to occupy the first place in the Union tax structure. The first excise duty, viz., the cotton excise duty, was imposed in 1894. But the most important excise duties were imposed in 1934 on sugar, matches and steel ingots. In fact, the year 1934 is a landmark in the development of Central Excise. These industries had been developed by protection and time had come to make good the loss from the decline in import duties by replacing them with excise duties. In the thirties, they covered only five commodities. But their scope has been considerably widened since then and they are now levied on tobacco, cloth, vegetable ghee, artificial silk, cement, soap, etc. They provide a fairly stable and steadily expanding source of revenue.

As regards extension of the scheme of Union excise duties, the Finance Minister said: "With the progress of industrialis-

ation, revenue from customs duties is bound to be progressively a less stable source of revenue; even, otherwise, the revenue from customs is "inevitably subject to the vicissitudes of trade policies and the availability of foreign exchange. It is, therefore, necessary to turn increasingly to indigenous industries producing consumer goods for the replacement of a part of the revenue which, in the past, we used to derive from customs duties on such goods. It is also appropriate that those industries, which have in the past developed with the assistance of protectionist policies, for which the consumer paid by way of increased duties, should, when they have reached the stage of full development, make a fair contribution to the country's exchequer. The country's tax structure can be made stable only by broadbasing its excises without affecting the economy of the industries taxed or placing an undue burden on the consumers." The proportion of revenue derived from Union excise duties to total tax revenue has risen from 17% in 1950-51 to 27% in 1955-56 and jumped to 39% in 1960-61.

As in the case of income-tax, receipts from Union excise duties are shared between the Centre and the States. On the recommendations of the first Finance Commission, the States got (with effect from the budget for 1952-53) 40% of the net proceeds of the excise duties on tobacco, matches and vegetable products; but, with effect from the budget for 1957-58, on the recommendations of the Second Finance Commission, the range of shared excise duties has been widened by the inclusion of several more excises, but the States' share in the net proceeds was reduced to 25% and further reduced to 20% by the Third Finance Commission. The amount so obtained by the States has been steadily increasing from Rs. 15.1 crores in 1954-55 to Rs. 141.37 crores in 1964-65 (B.E.).

Excise is consumption-inhibitive and has a function as an anti-inflationary device. But it is also said that it is a 'fiscal jungle in which luxurious procedural undergrowth chokes the smooth functioning of the economy'. The ad hoc concessions and exemptions have made the present system, in the words of Chanda Committee, 'impractical, wasteful and riddled with ineffective privileges and exemptions'. The Chanda Committee made a number of recommendations designed to simplify and rationalise modes of levy and collection and to bring about some uniformity in exemptions. In the budget for 1965-66, excise duties on footwear, cycle parts and some other articles of common use were abolished.

From Rs. 145 crores in the last year of the First Plan, excise revenues rose to Rs. 489 crores in the first year of the Third Plan. The revised estimates for 1964-65 put them at Rs. 773.05 crores which is more than half of the total tax revenue. The budget for 1965-66 puts them at Rs. 827.17 crores.

Income-tax

Income-tax was first introduced in 1860 to meet the financial

embarrassment caused by the Mutiny. But the first systematic legislation in this regard was enacted in 1886. Changes were made from time to time to suit the financial requirements of the year as well as according to the judicial decisions and recommendations of the various enquiry committees. The minimum exemption limit has been changed several times. The limit now stands quite high varying on the number of dependants.

The Income-tax Act of 1939 introduced several necessary reforms. It substituted what is called the "**slab**" system in place of the previous "**step**" system. According to the previous system, the whole income was assessed at the same rate; but under the new system, the higher slabs of income are taxed at a higher rate.

A very important improvement in the income-tax was made in the 1945-46 budget, viz., a distinction was made between earned and unearned incomes. Relief to the extent of one-fifth of the income, subject to a maximum of Rs. 4,000, was given in the case of earned incomes. It is only fair that a person who has actually to work to earn his income should be treated more leniently than the idle rich whose holdings in joint-stock companies, bank accounts, etc., automatically bring in a stream of income without their having to raise their little finger. This relief provides for a sort of depreciation allowance for human machinery. The Taxation and Enquiry Commission (1953-55) recommended that earned income allowance should be given only in respect of incomes below a specified limit, say, Rs. 24,000, and all incomes above this limit should be considered as wholly unearned with marginal adjustments, where necessary. As a first step towards the abolition of earned income allowance on higher brackets of income, the earned income relief of Rs. 4,000 was reduced in 1955-56 budget by Rs. 200 for each Rs. 1,000 of income in excess of Rs. 25,000, the relief ceasing altogether when the level of Rs. 45,000 was reached. Since 1957-58 budget, the procedure of differentiation between earned and unearned income has been changed. Now a standard schedule of rate is applied to all earned incomes and in addition a surcharge is levied on unearned incomes.

Till recently, the income-tax was defective in that it did not take into consideration the number of dependants. In fact, the unit is not the individual but the family. Equity demands that of two men having the same income, the man with the larger family should be called upon to pay less. Such abatements or family allowances are given in England. It was pointed out that in India the family being universal phenomenon, almost everybody will have to be given an abatement. This would involve administrative difficulties, and add to the cost of the administration of income-tax. The Taxation Enquiry Commission (1953-55), however, recommended that necessary steps should be taken to introduce an appropriate scheme of family allowance not later than 3 years and that in the meantime the tax-exempt slice of Rs. 1,500 should be raised to Rs. 2,000 for married assessees and reduced to Rs. 1,000 for unmarried persons. This was given effect

to. The 1957-58 budget further increased the tax-free slab for married persons from Rs. 2,000 to Rs. 3,000. At the same time, a children's allowance of Rs. 300 per child, with a maximum of Rs. 600 was permitted. The marriage and children's allowance are, however, available only to persons with incomes up to Rs. 20,000.

In order to encourage savings and investments, the Taxation Enquiry Commission (1953-55) recommended the introduction of a surcharge-cum-compulsory deposit scheme. This recommendation was given effect to in 1957 through the introduction of the current profits deposit scheme. Under this scheme, depreciation allowances and development rebates, which are normally deducted for purposes of computation of profits, would not be treated as items of expenditure, unless the companies (other than banks, electricity and shipping companies, etc.) deposit with the Central Government or the Reserve Bank of India a prescribed amount depending on undistributed profits and reserves. The amount to be so deposited will consist of two parts: "(i) a certain percentage (not exceeding 75) of the amount by which retained profits of the previous year available before deduction of depreciation and development rebate but after deduction of income and super-tax payable and dividend declared, exceeds Rs. 1 lakh, and (ii) a prescribed percentage (not exceeding 25) of accumulated profits and reserves, which are not represented by fixed assets in the business". The actual percentage is announced by the Central Government from time to time. The deposits carry interest at rates prescribed by Government and will be refundable for business uses for purposes approved by the Government.

Tax on excess dividends was abolished with effect from April 1, 1960. The period for which exemption is available to new industrial undertakings has been extended for further five years from April 1, 1960. The limit up to which donations for charitable purposes qualify for exemption from tax has been increased from 5% of total income or Rs. 1,00,000 whichever is less to 7½% of total income of Rs. 1,50,000 whichever is less. The business incomes of co-operative societies connected with agriculture rural credit and cottage industries will continue to be wholly exempt only up to a sum of Rs. 10,000. In the 1965-66 budget, the list of eligible industries for tax benefits was enlarged. The manufacturing companies were given certain tax concessions to enable them to build up adequate reserves. Special concessions were given to encourage the shifting of big industries from overcrowded major cities, e.g., refund of tax made on capital gains from the sale of land and buildings in big cities to the extent they were invested in new areas. Equity investment in new industrial companies was exempted from wealth tax for five years.

Next to Union excise duties, income-tax (including the corporation tax) is the most important source of revenue for the Central Government. The total yield from income-tax was 68% of the total tax revenue in 1944-45. The proportion of income-tax

(including Corporation Tax) to total revenue was 31% in 1950-51, and it fell to 24% in 1955-56 and 22% in 1960-61.

The whole of the receipts from income-tax other than the corporation tax, are not kept by the Central Government. Prior to 1952-53, 50% of net divisible pool was allocated to States. According to the recommendations of the First Finance Commission, the proportion going to States was raised to 55%, with effect from the budget for 1952-53; and, on the recommendation of the Second Finance Commission, it was raised further to 60% from the budget for 1957-58 and has been further raised to 66-2/3% from 1962-63 budget.

In India evasion of income-tax takes place on rather a large scale. It not only deprives the State of revenue but places an inequitable burden on honest tax-payer. The extent of income-tax evasion in India has been estimated by the Taxation Enquiry Commission to be between Rs. 30 crores and Rs. 40 crores. Mr. Kaldor, the well-known British economist, puts it at between Rs. 200 crores and Rs. 300 crores.

One very important aspect of income-tax is that its rates should not be so high as to act as a deterrent to work and to saving in the community. Certain allowances or partial exemptions are, therefore, given to encourage saving and capital formation; or, at least, to check the discouragement to saving. The main types of allowances granted with this object are provident fund contributions and insurance premia for individuals and families, and in the case of business, depreciation allowances and special rebates for new undertakings. Accordingly, in India, rebate from tax is given for insurance premia and provident fund contributions (subject to the limit of one-fifth of the total income of Rs. 8,000, whichever is less). Moreover, considering that for very high personal incomes, the income-tax rates were too high, the highest marginal rate which stood previously at 91.8% was reduced, with effect from the budget for 1957-58, to 84% for unearned income and 77% for earned income. In the case of industrial undertakings apart from depreciation allowance a provision has been made to exempt from taxation for a specified period profits (up to a specified limit) of newly started concerns.

Some significant changes were made in company taxation in the budget for 1960-61. Wealth tax on companies and the tax relating to excess dividends were abolished from April 1, 1960. Schedule of rates for income-tax and super-tax was revised for 1962-63 budget. In 1963-64, Super Profits Tax was levied on corporations and also a surcharge on income-tax. According to 1964-65 budget tax on income other than Corporation tax was estimated at Rs. 250 crores of which the States' share comes to Rs. 108.45 crores. The Corporation tax was estimated at Rs. 306 crores. The budget for 1965-66 put the income-tax receipts at Rs. 294 crores and the Corporation tax at Rs. 386 crores at the existing level of taxation.

Compulsory Deposit Scheme was introduced in the budget for 1963-64 according to which every individual had to make a compulsory deposit of a certain percentage of his income. It is withdrawable after the expiry of five years. The C.D.S. was abolished in the budget for 1964-65 and was replaced by the Annuity Deposit Scheme according to which all persons with incomes exceeding Rs. 15,000 have to make a compulsory deposit on a graded system one-tenth of which can be drawn every year.

The budget for 1965-66 made major changes in personal taxation in order to simplify and rationalise it. The distinction between income-tax and super tax has been abolished and the two have been integrated. Tax discrimination against unmarried persons has been eliminated. Incomes will be chargable to tax subject to relief on account of personal allowance of Rs. 2,000 for every individual with an additional allowance of Rs. 1,500 for a married individual and Rs. 400 for each dependent child up to a maximum of two children. For a married individual with two dependent children no tax will thus have to be paid up to an income of Rs. 4,300 as against Rs. 4,000 as at present. Deductions in respect of contributions to provident fund, insurance premiums, and cumulative time deposit scheme have been simplified. Apart from raising the money limit of concessions from Rs. 10,000 to Rs. 12,000, now a straight deduction from income of 50% of the amount contributed to the items eligible for relief will be made

Ceilings on Income

For some time past, the problem of ceilings on income has been a live issue in India till the late Prime Minister seemed to have silenced it by his intervention in a debate in Parliament. The issue was started by an innocuous reference in the report of the Taxation Enquiry Commission and it was taken up with a missionary zeal by the votaries of socialism. The Taxation Enquiry Commission said: "There should be a ceiling on net personal incomes which, after tax, generally speaking, should not exceed approximately 30 times the prevailing average per family income in the country". The supporters ignore the guarded manner in which the Commission had mentioned it and the qualifications to which it was subject and said that the Commission had set on it its seal of approval. The Commission had, however, hastened to add: "We do not suggest that this is capable of immediate implementation, but we think that it is important to strive by stages for its implementation over a period of time. The accomplishment of this objective cannot merely be the result of tax-changes, but must be related to an integrated approach along several directions". In view of this expert opinion, it cannot be said that the proposal is feasible, at any rate for some time.

Dr. John Matthai, the Chairman of the Commission, clarified the issue (vide **Commerce** dated 31st January, 1956) by pointing out that the essence of the Commission's formula was that the

upper limit to income should be related to the average income and that, in any case, it was not a rigid formula, since equality in the context of a socialistic pattern of society must be dynamic as well as realistic. The Union Finance Minister declared during the debate on the Finance Bill in 1956 that ceilings on incomes implied ceilings on property and that a limit on incomes through ceilings on property was not a feasible proposition, since it would involve payment of compensation. The Planning Commission also regarded a ceiling on incomes as the end-product of a process, rather than a beginning. On the other hand, the Commission considered a floor for incomes, i.e., a certain minimum is no less important than a ceiling at top levels. The Commission reached the conclusion that a ceiling could not be imposed merely by legislation. The late Prime Minister also remarked in the course of a debate in the Parliament that to think that ceiling on incomes could be brought about by legislation was wishful thinking.

To those who advocated ceilings on incomes for ushering socialism, Mr. Nehru replied that "socialism is not something which can be defined as a dead level of poverty. It does not mean cutting off of the head of everybody who is above a certain height". He deplored disparities of income and condemned as vulgar the display of their wealth by the rich. But the best way to reduce inequalities of incomes is by raising incomes of those at the bottom and reducing the incomes of those at the top. Of these the more important and the major process is to raise the income of the people at the lower end of the income scale. For an underdeveloped country like ours, the more important thing is to produce more wealth and not to take away incentives to wealth production by thoughtless measures like the ceilings on incomes.

Prof. Kaldor, a British economist and an expert on financial affairs, who was invited by the Government of India to give his advice on taxation, has also stated that economic inequality cannot be reduced through the introduction of absolute ceilings, so long as wealth continues to be privately owned. The Government will not be able to attract the best talent for its newly started State enterprises unless it paid salaries fully competitive with those offered by private enterprise. The objective of reduction of inequalities of wealth can be achieved through comprehensive and effective taxes on wealth instead of what Kaldor calls "the spectacular but meaningless" (and indirectly harmful) notion of a ceiling on incomes. The marginal tax on incomes had already reached 97.5% in 1946-51. To raise it further would eliminate very desirable economic incentives. It is said that in England heavy taxation makes taxable income into a luxury which the rich man can no longer afford to have. Prof. Kaldor thus concludes that "The proposal is not one which a country like India could adopt without seriously compromising her prospects of growth and improvement or of even the maintenance of existing standards". Incentives cannot be eliminated without perilous consequences.

The case for ceilings on land holdings stands on a different footing. The size of effective farms in India is very small and ownership of land above a certain size serves no economic purpose and is merely a method of exploiting the peasantry. It is often an impediment to improvements in productivity. This is certainly not true of high incomes earned through a successful business and professional career or accumulation of fortunes through successful enterprises. Thus, while there can be imposed a ceiling on land holdings, it will be inadvisable to do so in case of incomes. Hence to fix ceilings on incomes is not only undesirable but dangerous in the present circumstances of India.

The time is not opportune for fixing such a ceiling. A ceiling on income at this juncture might sap the initiative for greater production. As for the reduction of disparities in incomes, the Government has already taken several measures, e.g., introduction of wealth tax, gift tax, expenditure tax, capital gains tax, etc. As production increased and more avenues of employment were created, these disparities would automatically be reduced to some extent. For the present it is essential to provide all possible incentives and facilities to expand production

Customs

Customs duties include both import duties and export duties, but the import duties contribute nearly 95% of the total customs revenue. The major portion is derived from revenue duties and only a small portion from protective duties. The proportion of customs in the Central revenue has been steadily going down. It has declined from 39% in 1951-52 to 35% in 1955-56 and further to 20% in 1960-61.

The import duties have been raised from time to time according to financial exigencies. In the years immediately preceding the Second World War and shortly thereafter, the rates of duty on several individual items were raised to meet budgetary requirements. A process of increasing duties and extending their coverage has been carried on in recent years. The contribution of import duties to the Central Tax Revenue fell from 48% in 1938-39 to about 20% in 1961-62. In 1964-65 budget their yield was estimated at Rs. 335.79 crores.

Export duties constitute a well-known feature of the Indian fiscal system. Export duty on jute was imposed in 1916 which has continued ever since. Export duty on tea has also been an important item. During the Second World War, a duty of 3% was levied on export of cotton yarn and cloth. Since 1946, export duties have acquired new importance; duties were imposed on a number of new articles and old duties were raised. In view of the difficulties experienced by nascent export industries in a growing economy, which is afflicted by shortages at various levels leading to higher cost of production, it is necessary to provide substantial assistance to such industries. Accordingly, for 1965-66, it was decided to issue tax credit certificates to the

exportors up to 15% of the value of their exports. These certificates can be used for payment of taxes or refunded in cash.

The yield from export duties reached the peak figure of nearly Rs. 91 crores in 1951-52, but it dropped to Rs. 2.96 crores in 1964-65 (B.E.).

Customs offend against the canon of equity, for they press more heavily on the poor than on the rich. This view is supported by the analysis given by the Indian Taxation Enquiry Committee in 1952. According to the Economic Adviser to the Government of India, the "weight of import duties presses most heavily on goods of general consumption, less severely on luxury goods and least on capital goods and raw materials."[1]

The customs duties have been the mainstay of the Government, and have come to their rescue whenever there was financial stringency, as in the early thirties. But as India becomes industrialized, less reliance will be placed on customs duties as a substantial source of revenue and a greater reliance shall have to be placed on excise duties.

In 1963-64 (revised estimates) customs revenue (net receipts) amounted to Rs. 320 crores, for 1964-65 it was estimated at (net receipts) Rs. 336 crores and for 1965-66 (B.E) it was estimated at Rs. 405 crores. Thus, customs account at present for one-fifth of the total revenues of the Government of India. Before World War II, they brought more than half of the total revenues.

Almost all goods pay import duties either for revenue or for protecting Indian industries. In recent years, import duties on luxury articles have greatly been increased. Several new export duties have also been levied Examples of export duties are jute, raw and manufactured, raw cotton, on piecegoods, tea, etc. To stimulate exports, many of the export duties have been abolished or reduced greatly in the last five years.

Estate Duty

The Estate Duty Act was passed in 1953. It provides for imposition and collection of a duty on capital value of property changing hands on the death of a person, subject to an exemption limit. Distinction may be made between the Estate Duty and Succession Duty. Estate Duty is levied when. on the death of a person, his estate passes on to his heirs. It is graduated with reference to the total value of the property left by the deceased. The Succession Duty, on the other hand, takes into consideration the share of each individual successor and not the total value of the estate. It is graduated generally with reference to the windfall element, which increases with the distance of relationship between the deceased and the beneficiary.

In almost all progressive States, death duties, in one form or

1. Jather and Beri, *Indian Economics*, Vol. II, 1941, p. 516.

another, occupy an important place in the system of taxation. In India also the Taxation Enquiry Committee (1924-25) recommended their imposition. But the implementation of these recommendations was deferred owing to constitutional difficulties; since according to the findings of the Federal Court, there was no provision in the Act of 1935 for the imposition of estate duty. The Act was amended to confer the power of imposing such a duty on Indian legislatures. Though levied by the Central Government, the proceeds are distributed among the States according to the principles laid down in the Central Act.

There were two objects kept in passing this Act: (i) to reduce great inequalities of wealth distribution so that wealth does not concentrate in a few hands; and (ii) to fortify the financial position of the States so that they may have funds enough to carry through their development schemes, and to enable them to improve their existing social services. During the war, huge private fortunes were made by some people in spite of E.P.T. and other wartime taxation. The introduction of the estate duty, it was hoped, would place India on the road to a more equitable distribution of national wealth. Besides mopping up superfluous money, it will create a better social order and better social justice.

Commenting on this measure in the House of the People, Mr. C. D. Deshmukh, the then Finance Minister, said: "The addition to our resources that this measure will achieve will not, perhaps, be significant. I expect that in the long run the socio-economic consequences will be more important than the financial results....India will have accomplished a major non-violent revolution on the basis of real democracy." Fears have been expressed, however, that the Act would sound the death-knell of the joint Hindu family system.

The charging clauses of the Act generally follow the provisions of similar Acts in the United Kingdom. The Estate Duty is charged on the total value of the property left by the deceased whether according to his own disposition or as a result of settlement made by others. The governing principle is that the title of the State to a share in the accumulated property of the deceased is an anterior title to that of the interest to be taken by those who are to share it.

No duty is payable on the first slab of Rs. 50,000 of property consisting of interest in a Hindu family and in the case of others the first slab of Rs. 1 lakh. The balance is chargeable at progressive rates on the slab system. The properties exempted from duty are: (a) gifts for public charitable purposes made within six months of death to the extent of Rs. 2,500, (b) gifts for any other purpose within two years of death to the extent of Rs. 1,500, (c) proceeds of insurance policy for the purpose of paying Estate Duty not exceeding Rs. 50,000, (d) moneys deposited with the Government for the purpose of paying Estate Duty not exceeding Rs. 50,000, (e) insurance proceeds on the life of the deceased to the extent of Rs. 50,000, and (f) moneys earmarked for the

marriage of any female relative dependent on the deceased to the extent of Rs. 5,000 for each such relative.

All deaths occurring within a period of three months of the first death in respect of which duty has been paid are treated as one death.

The Estate Duty Amendment Bill passed in August 1958 reduced the duty from 6% to 4% on the first slab after Rs. 50,000 and from 8% to 6% on the next slab. The exemption limit was reduced from Rs. 1 lakh to Rs. 50,000.

The Indian Estate Duty makes no distinction between inherited and acquired property, nor does it draw any distinction on the basis of the consanguinity of succession duties. The minimum exemption limit is higher and the rates charged are lower than in other countries. In the words of the Taxation Enquiry Commission, "There seems to be a case for changes both in the system and the rates of the estate duty with a view to making it more effective instrument for lessening both the range and the magnitude of inequality of wealth in the country."[1] It should be made more progressive. The yield from Estate Duty was estimated at Rs. 4.35 crores in 1963-64 (R.E.), for 1964-65 (B.E.) and 1965-66 (B.E.) at Rs. 7.40 crores.

Tax on Capital Gains

This tax was first introduced in 1946 and continued till March 1958. It was revived with effect from April 1, 1956. It is applicable to capital gains resulting from the sale, exchange or transfer of capital assets. If, however, the capital gains during the year are less than Rs. 5,000, no capital gains tax is payable. It is also not payable if the capital gains together with other income of the assessee do not exceed Rs. 10,000. The tax is imposed only on realised capital gains and not on accrued profits. Capital gains arising from the sale of agricultural land or of personal effects or household goods are exempted from this tax. If a person sells a residential house in order to acquire another he does not become liable to pay this tax on the capital gain made in this sale. As in the case of income-tax, capital losses are allowed to be carried forward and set off against the taxable capital gains of subsequent years. The capital gains are taxed at the rate of income-tax payable for the total income, including therein only one-third of capital gains. The capital gains are not liable to super-tax. In 1962-63, it was proposed that for levying the tax on capital gains, they should be divided into two categories, viz., gains arising on transfer of a short-term capital asset and gains arising on transfer of other capital assets. The first category will be taxed in the same manner as income other than capital gains and the second at a flat rate of 25% or as on transfer of short-term capital assets whichever is more favourable. The basic tax-free limit of Rs. 5,000 will continue

1. Report, p. 247.

only in the case of capital gains arising on transfer of capital assets other than short-term capital assets.

Tax on Wealth

Egalitarian and financial considerations led to the imposition of two new major taxes in the 1957-58 budget. One of these was the Wealth Tax. It is imposed on the net wealth of individuals, Hindu undivided families and companies. The exemption limit is Rs. 2 lakhs in the case of individuals, 4 lakhs in the case of Hindu undivided families and Rs. 5 lakhs in the case of companies. In the case of individuals and the Hindu undivided families, in respect of wealth in excess of the amount exempted, the rate of the tax is ½ per cent for the first Rs. 10 lakhs, 1 per cent for the next Rs. 10 lakhs and 1½ per cent on the balance. In the case of companies, on values in excess of Rs. 5 lakhs, the rate is ½ per cent. Certain types of properties such as agricultural properties, properties of charitable trusts, personal effects and balances in recognised provident funds and insurance policies are completely exempted. Jewellery is exempted up to Rs. 25,000. The banking, insurance and shipping companies are altogether exempted. New industrial undertakings enjoy exemption for the first five years. Shares held by one company in another company are not to be included in taxable wealth. Foreign companies are to pay tax on their Indian wealth. The Wealth Tax on companies was abolished with effect from April 1, 1960. In 1962-63, the wealth tax rates were raised by .25% and .5% on the two highest slabs and slab structure revised a little. For 1965-66, additional wealth tax was levied on the value of urban property in certain cases. In 1964-65 budget the yield was estimated at Rs. 10.20 crores and for 1965-66 (B.E.) at Rs. 12.00 crores.

Expenditure Tax

The other new tax imposed in 1957-58 was the Expenditure Tax. It is levied on individuals and Hindu undivided families whose income for income-tax purposes exceeds Rs. 36,000. Several exemptions and deductions have been provided. Provision has also been made for a basic allowance of Rs. 30,000 for an assessee. Besides basic allowance, deductions in respect of expenditure incurred on the maintenance of parents, for marriage, medical treatment and educational expenses abroad are also allowed subject to certain specified limits. The tax is levied on the slab system, the rate varying from 10% on the first slab after the exempted amount to 100% on the highest slab. The tax became effective from the year 1958-59. A minor amendment made in 1960 provides for allowances for expenditure incurred on leave travel in India as well as education of children in India. It was estimated to yield Rs. 18 lakhs in 1963-64 (R.E.), and for 1964-65 and 1965-66 (B.E.) Rs. 1.55 crores. It has been ineffective an instrument of economic restraint and unattractive as a source of revenue.

Gift Tax

The Gift Tax came into force on April 1, 1958. To arrive at the figure of taxable gifts from the total value of the gifts made during a previous year, the various items of gifts exempt under Section (1) of the Act should first be deducted. If the balance exceeds Rs. 10,000 in one previous year, the excess constitutes the value of taxable gifts on which the donor will have to pay the tax at the rates mentioned in the schedule to the Act. Charitable institutions, Government companies, corporations established by Central and State Acts and public companies whose affairs are controlled by six persons or more are exempted. Other concessions include: (1) reasonable gifts to children for the education and to employees and dependants by way of bonus, gratuity and pension; (2) gifts for carrying on business, profession or vocation, and (3) gifts made from ex-rulers' privy purses for maintenance of dependants and the performance of official ceremonies. The rates of tax are based on a slab system and vary from 4% on the first slab of Rs. 50,000 to 40% on gifts over Rs. 50 lakhs. The yield from this tax in 1963-64 (R.E.) is estimated to yield Rs. 1.10 crores and for 1964-65 and 1965-66 (B.E.) Rs. 3.10 crores.

Currency and Mint

The Reserve Bank of India was nationalised on 1st January 1949. Thus all the profits of the Reserve Bank go to swell the revenues of the Central Government. Even before the nationalisation, shareholders were paid a fixed dividend at the rate of 3½% and the rest of the profits accrued to the Government. In recent years, the profits of the Reserve Bank have been rising rapidly because of the large borrowings by the Government from the Bank against Treasury Bills for financing the Plan. Thus, income under currency and mint has risen to Rs. 47.60 crores (revised estimate) for 1962-63 from Rs. 19.75 crores in 1955-56. The expected income from this source in 1963-64 (R.E.) is placed at Rs. 57.37 crores, for 1964-65 (B.E.) Rs. 53.73 crores and for 1965-66 (B.E.) Rs. 61.69 crores.

It will be obvious from the above account that Union excises, income-tax and customs are the chief sources of the Central Government's revenue receipts. Together they account for nearly nine-tenths of the total revenue: in the budget for 1964-65, their combined revenue comes to Rs. 1,355.72 crores out of the total revenue of Rs. 1,970.84 crores.

Railways

The Central Government gets a share in the profits of the Railways. During World War II, the Railways made usually high profits. The share which the Government obtained, therefore, set new records. In 1950, a new Railway Convention was adopted according to which the Central Government has been guaranteed a dividend of 4% on the loan capital invested in the Railways. The convention was revised in 1954 and later in 1960.

After paying interest out of this dividend the Central Government is left with some money which may be called the net contribution of the Railways to the Central budget. For 1964-65 it is estimated at Rs. 30.83 crores.

Posts and Telegraphs

They are primarily run for public convenience rather than for profits. The net annual contribution is, therefore, not very large and has been placed at only Rs. 6.82 crores in the budget for 1963-64.

Central Expenditure

The chief items of expenditure are: Defence Services, Development Services, Civil Administration and Debt Services. The public expenditure in India has continued to swell and has grown to huge dimensions. It has increased in the present century from Rs. 88.07 crores in 1899-1900 to Rs. 1,876.76 crores in 1964-65 (B.E.) budget and to Rs. 2,116.48 crores in 1965-66 (B.E.). It has been rapidly going up since we started our economic development plans. It rose from Rs. 346.64 crores in 1950-51 to Rs. 440.74 crores in 1955-56 and further to Rs. 826.21 crores in 1960-61.

Defence Expenditure

It constitutes roughly one-third of the total expenditure. Since the partition, the defence expenditure has gone up due to political uncertainty prevailing in the world abroad, trouble on our borders, and the unsettled conditions prevailing at home. In particular, the uneasy Indo-Pakistan relations and the Kashmir question are responsible for increases in the defence expenditure. It is now expected to jump up owing to Indo-China armed conflict. Our efforts in building up the Navy and the Air Force and modernising the Army have worked in the same direction. The increase in the defence expenditure in 1961-62 was presumably, due to a large extent, to the Goa Operation. It was also due to a large provision for stores, equipment transportation and other charges. In 1963-64 (R.E.), it shot up to Rs. 692.55 crores from Rs. 451.81 crores in 1962-63 (B.E.). This sudden and big rise was due to Chinese Aggression which has compelled complete re-thinking on defence strategy. For 1964-65 (B.E.) it was put at Rs. 717.80 crores, and for 1965-66 (B.E.) at Rs. 748.74 crores.

Civil Administration

The expenditure on civil administration has also gone up markedly since Independence. In 1948-49 it was Rs. 40.5 crores and Rs. 33.57 crores in 1955-56. For 1964-65 (B.E.) it is estimated at Rs. 81.84 crores. They pay roll has continued to swell. This is the necessary incidence of democracy. The creation of embassies—the insignia of an independent State—, relief and rehabilitation of the refugees, and the food subsidies are other

important factors responsible for the abnormal increase in our civil expenditure. The number of ministries has continued to expand. The Secretariat, too, correspondingly multiplied. There is a continuously flowing stream of delegations to international conferences. All this means more and more expense.

Social and Development Expenditure

The Social and Development Services are another item that has experienced a marked rise in recent years. These services include irrigation and multi-purpose river schemes, posts and pilotage, lighthouses, light ships, scientific departments, education, medical, public health, agricultural and rural development, veterinary, cooperation, industries and supplies, aviation, broadcasting, civil works, electricity schemes, etc. The increase in this expenditure is inevitable concomitant of the shift of emphasis to development. The expenditure on Social and Development Services has increased from Rs. 39.50 crores in 1950-51 to Rs. 82.41 crores in 1955-56 and to Rs. 236.40 crores in 1960-61. In 1964-65 budget it has been estimated at Rs. 168.14 crores and for 1965-66 (B.E.) Rs. 184.66 crores. The swelling expenditure has resulted in growing emphasis on the need for economy.

Assistance to States

Since recent years a very important item of Central Government expenditure has been the grants and other financial assistance that the Centre extends to the States. One category of such grants is the **statutory grants** as recommended by the Finance Commission. Another includes the **grants made to the jute-producing States** in lieu of export duties on jute goods. Still another category of **grants are for developmental purposes** such as grow more food, community development and industrial housing schemes. The sum of all these grants, contributions, etc., has been estimated at Rs. 293.21 crores for 1964-65 (B.E.) and for 1965-66 (B.E.) at Rs. 327.11 crores

Debt Services

Interest-bearing obligations of the Government of India totalled Rs. 4,919.6 crores at the end of the financial year 1958-59. Interest has to be paid on them and on the new interest-bearing obligations being incurred by the Government. In the budget for 1964-65, interest payment on public debt has been put at Rs. 318.41 crores and for 1965-66 (B.E.) Rs. 356.11 crores.

Direct Demands on Revenue

The cost of collection of revenue constitutes another major head of expenditure. In the budget for 1964-65, it accounts for Rs. 25.34 crores and for 1965-66 (B.E.) Rs. 28.88 crores.

Expenditure on Refugees

Since partition, large amounts have had to be annually spent

on: (a) providing relief to the refugees in camps, and (b) rehabilitating them. The Central Government has been bearing the bulk of the expenditure with the State Governments concerned. The expenditure on this item is, however, declining as the work of refugee rehabilitation is being wound up. In the budget for 1961-62, Rs. 11.28 crores were provided under this head. Recent influx of refugees from East Pakistan has once again increased this item of expenditure.

Miscellaneous

From time to time some new but temporary head of expenditure emerges. **Subsidy on foodgrains** may be cited as the best example. In 1951-52, Rs. 50 crores were paid by the Central Government as food subsidies (to subsidise the sale of imported foodgrains). Gradually it was reduced so that in 1952-53 Rs. 21 crores were paid and in 1953-54 only Rs. 1.8 crores and in the budget for 1954-55 it did not figure at all. In the budget for 1964-65 the Miscellaneous item accounted for Rs. 78.80 crores and for 1965-66 (B.E.) Rs. 116.27 crores.

Central Budget for 1965-66

The following is a summary statement of the budget:—

Revenue Budget

(in lakhs of rupees)

	Budget 1964-65	Revised 1964-65	Budget 1965-66
Receipts			
Customs	3,36,37	3,85,00	4,05,00 14,50*
Union Excise Duties	7,69,54	7,73,05	8,27,17 – 7,98*
Corporation Tax	2,96,67	3,42,00	3,86,00 – 14,40*
Taxes on Income	2,47,28	2,68,00	2,94,00
Estate Duty	7,40	7,00	7,40
Taxes on Wealth	10,20	11,05	12,00 +1,50*
Expenditure Tax	1,55	75	1,55
Gift Tax	3,10	3,10	3,10
Other Heads	21,57	21,93	23,87
Debt Services	2,52,14	2,65,57	2,96,73
Administrative Services	8,98	9,13	9,51
Social and Development Services	28,13	30,40	23,57
Multi-purpose River Schemes, etc	11	12	13
Public Works, etc.	3,75	3,90	3,94
Transport and Communications	6,81	7,14	6,75
Currency and Mint	53,73	52,11	61,09
Miscellaneous	17,29	21,38	25,47
Contributions and Miscellaneous Adjustments	31,08	32,71	34,81
Extraordinary Items	1,43,31	1,24,62	60,50
Deduct—Share of Income-tax payable to States	– 1,07,49	– 1,23,77	– 1,22,93
Deduct—Share of Estate Duty payable to States	– 7,22	– 6,78	– 7,17
TOTAL	21,24,30	22,28,41	23,53,09 – 6,38*

*Effect of Budget proposals.

	Budget 1964-65	Revised 1964-65	Budget 1965-66
Disbursements			
Collection of Taxes, Duties and other Principal Revenues	25,34	26,41	28,88
Debt Services	3,18,41	3,17,61	·3,56,11
Administrative Services	81,84	82,17	91,36
Social and Development Services	1,68,14	1,65,11	1,84,66
Multi-purpose River Schemes etc.	1,84	1,33	1,98
Public Works, etc.	20,21	20,66	22,98
Transport and Communications	10,18	10,37	10,62
Currency and Mint	17,33	15,36	16,40
Miscellaneous	98,31	95,17	1,16,27
Contributions and Miscellaneous Adjustments :			
Grants to States and Union Territory Governments	2,89,08	2,88,56	3,27,11
States' share of Union Excise Duties	1,40,98	1,27,34	1,40,84
Other Expenditure	4,13	4,32	4,69
Extraordinary Items	1,47,52	1,28,04	65,84
Defence Services (Net)	7,17,80	7,16,81	7,48,74
TOTAL	20,41,31	19,99,26	21,16,48
Deficit ( ) Surplus (+)	+82,99	+2,29,15	+2,36,61 6,38*

* Effect of Budget proposals

New Taxation Proposals

The following are the main taxation proposals for 1965-66.

Reduction in Excise Duties

Excise duty on footwear, cycle parts, tyres and tubes, printing and writing papers used in the publication of registered dailies, silk fabrics. gramophones, cigar and silver abolished.

Duty on controlled varieties of grey as well as processed coarse and medium cloth reduced by 50 per cent.

Duty on rayon yarn of coarser and industrial deniers and cellulose staple fibre to be reduced.

Marginal reduction of duty on staple fibre yarn.

Increase in Excise Duties

Duty on copper and copper alloy in crude form raised from Rs. 300 to Rs. 1,000 a ton and that on circles and sheets from Rs. 500 to Rs. 1,500 a tonne.

Duty on steel ingots, plates and rails and sleeper bars raised by Rs. 10 a tonne, on semi-finished products and bars, rods and

structurals by Rs. 15 a tonne; on black sheets and hoops by Rs. 40 a tonne and on skelp by Rs. 50 a tonne, on strips by Rs. 90 a ton and on galvanized plates and sheets by Rs. 100 a tonne.

Effective duty on tin plates and tinned sheets raised from Rs. 165 to Rs. 225 a tonne.

Regulatory customs duty of 10 per cent of the value on imported goods imposed to continue. Levy increased in some cases.

Import duty on stainless steel plates and sheets raised from 30 per cent to 100 per cent ad valorem.

Duty on steel tin plates raised from Rs. 100 a tonne plus 5 per cent to Rs. 325 a tonne continuing the present preference of Rs 20 a tonne where it is applicable.

Duty on paints, colours and painters materials not otherwise specified raised from 60 per cent to 75 per cent; on Sodium Hydro-sulphite from 40 per cent to 100 per cent, on essential oils and perfumery not otherwise specified from 75 per cent to 100 per cent, and on paper not otherwise specified, but excluding newsprint and printing and writing paper, from 50 per cent to 75 per cent.

Customs

Statutory import duty on raw cotton raised to 50 paise per kilogram.

Tax credit to exporters up to 15 per cent of the value of exports.

Tax Benefits to Industries

List of eligible industries for tax benefits enlarged to include limestone, flame and drip-proof meters, malleable iron and steel castings, calcium ammonium nitrate and ships.

Manufacturing companies to be given certain tax concessions to enable them to build up adequate reserves.

Special concessions to encourage shifting of big industries from overcrowded major cities; in the case of public companies refund of tax to be made on any capital gains made on sale of land and building in such cities to the extent that capital gains are reinvested in new areas.

Standard rate of development rebate to be reduced to 15 per cent from 20 per cent.

Tax credit certificates up to 25 per cent of excise duty be paid on additional production over a specified base year.

Family Planning

Companies to be allowed certain tax deductions on expenditure incurred by them in encouraging family planning among the employees.

Personal Taxation

Additional wealth tax to be levied on vast accummulation of urban property in towns on the basis of population. Levy ranges from 1 to 4 per cent on successive slabs of the total market value of property.

Exemption from wealth tax for five years for equity investment in new industrial companies.

Tax discrimination against unmarried persons eliminated.

Tax deduction on contributions to provident fund, insurance premium and the Cumulative Time Deposit Scheme simplified.

The highest marginal rate on unearned income reduced from 88.25 to 81.25 per cent and that on earned income from 82.5 to 74.75 per cent as a result of streamlining the tax structure.

In respect of estate duty and gift tax, some of the existing concessions enlarged.

Comments

The budget for 1965-66 is remarkable in several ways. It affords welcome reliefs to the tax-payers of all categories and attempts to boast the investment market by providing incentives for savings and investment so that the rate of economic growth may be accelerated. It has also the merit of being a surplus budget after a series of deficit budgets. The budget is an attempt to combine social objectives of the Constitution and meeting the requirements of a developing economy. In fact it represents a climax of the efforts for the fulfilment of the Third Plan. But it is a mixed fare, palatable in some parts and less palatable in others. Let us first take the bright side.

Its first merit is that it is a surplus budget. As such it is a symbol of financial stability. By correcting the wide disparity between expenditure and receipts, it has created an environment of financial and monetary stability. It is bound to improve India's credit in the world markets of finance. But what detracts somewhat from this achievement is that the surplus is due to larger revenues than to reduced expenditure. There is little evidence of economy. All the same, a surplus budget must be considered a good budget when inflationary forces are exerting a strong pressure on the economy.

Secondly, from the theoretical point of view the budget goes a long way in rationalising and simplifying the tax structure. Income-tax and super-tax have been integrated and instead of a complicated system of rebates on tax there will be straight deductions from total income. Besides, the distinction between married and unmarried individuals in the matter of personal taxation has been removed. These are indeed salutary reforms.

Thirdly, the budget gives relief in taxes at all levels. The common man gets relief through the reduction in excise duties on

articles of general consumption, e.g., footwear, cycle parts, etc. There is also a general reduction in the rates of personal taxation affording much needed relief to all income-tax payers. The reduction in the highest marginal rate on earned and unearned incomes is particularly welcome. The reduction in ceiling rates is calculated to reduce tax evasion and provide incentives to work and save.

Fourthly, the budget contains some gestures intended to encourage investment. It provides five years' exemption from wealth tax on equity investment in new industrial concerns. There are provided some new exemptions from estate duty to soften its rigours. It offers direct financial assistance to export industries, and bounties on additional productions. The aim is to improve the climate for investment and promote rapid economic growth. The capital market has been in doldrums for some time and the budget seeks to remove this frustration and put an end to the psychological drag so that the capital market looks up.

Fifthly, there is a new welcome device of tax credit certificates. This device has been used for several purposes, e.g., export promotion and increasing production and productivity in manufacturing concerns. Rebates are to be allowed in the form of tax credit certificates in excise duties and direct taxes on excess income over a base year's.

Sixthly, the budget makes a bid to unearth unaccounted assets popularly known as 'black money'. Inducements have been offered for voluntary disclosure of 'black' money which is a sort of plague distorting and corrupting the Indian economy. A number of concessions have been offered to those who will voluntarily declare their hidden wealth and severe penalties for those who will not respond to this gesture.

Seventhly, additional tax will be levied on wealth in the form of urban property and also a duty on land purchases in large cities. This will reduce speculation in urban property and also remove to some extent disparity in income and wealth. This is a step, however small, in the direction of socialistic pattern of society and as such is highly desirable. These provisions will also close an important outlet for 'black' money.

Eighthly, the budget offers some inducement for decentralisation of industry. There is going to be reduction in tax on capital gains from the sale of buildings and machinery in big cities to the extent the proceeds are invested elsewhere. This measure will help the movement of industry from the congested industrial centres to more healthy and open places.

Ninthly, the dividend tax, tax on bonus shares and annuity deposit scheme have been retained as anti-inflationary measures. For the same purpose, deficit financing has been reduced to the minimum. These are supposed to serve as wholesome restraints on inflation and maintain price stability. The issue of gold bonds carrying 7% interest will also have similar effect.

Finally, excise duties on scarce raw materials have been increased. This will have the effect of proper rationing and economic utilisation of these materials. No industrialist can afford to waste them.

In short the budget for 1965-66 is a step in the direction of financial and price stability, mobilises adequate resources for the Plan and other essential expenditure, creates a climate for savings and investment, seeks to boost production and exports, simplifies and rationalises tax structure and provides relief to all classes of tax-payers.

But there is the other side of the picture, the less bright side. The aims are right but the steps are too few or too feeble to achieve them. Far from buoying up the capital market, the industrial shares toppled down when the budget was presented. Obviously the budget has not improved the normal expectations of the investors. The Finance Minister has been less than generous to the corporate sector. The incentives offered are far too inadequate, for the corporate taxation still affects the morale of the investor. Tax on dividends as well as sur tax stays; the standard rate of development rebate has been reduced; and the capital gains tax on bonus shares has been only partially modified. These taxes had produced a sense of frustration in the minds of the investors. Their severity still remains unmitigated. The remedy is too inadequate to improve climate of investment.

The fiscal strategy adopted by the Finance Minister for the corporate sector is negative. He has dangled reduction from a basically high rate of tax as a bait for specific performance in certain industrial fields. It is not the selectivity of the approach that can be objected to But what is needed is the positive approach of the inducement of a lower level of taxation. A lower tax on companies would provide general impetus for economic growth. To justify high level of taxation as a restraining influence on prices is a vain hope as the past experience has shown. In the past two years both taxes and prices have been running high for the simple reasons that high taxes and credit curbs have raised the cost of manufacture. The reduction in the rates of personal taxation is only marginal, whereas wealth tax, gift tax, expenditure tax and estate duty which were raised last year have been left at the same high pitch. If the clouds of pessimism are to be lifted from the investment market, three things are essential: (a) Removal of anomalies with regard to earned and unearned income, (b) abolition of dividend tax in its present form and (c) abolition of tax on bonus shares.

Another point of criticism is that even though conscious effort has been made to simplify taxation the annuity deposit scheme has been left untouched. Its scrapping off would have given the hard pressed tax-payer much needed relief besides simplifying the tax system.

There is also a case for further lenient treatment of voluntary

disclosures of concealed wealth and incomes. It is doubtful whether the inducements offered so far will prove strong enough to persuade the tax-dodger to disgorge his hidden assets or perhaps the holders of 'black' money do not take the efforts of the authorities in this direction very seriously. The trouble with the Indian administration is that it is bold to declare a desirable policy but fails miserably in its implementation.

We might say in conclusion that the proposals embodied in the budget are in the right direction but the inducements offered are not to the right extent. The medicine is right but the doses are too small.

Indian Public Debt

Nature of Public Debt

India occupies a very happy position so far as her public debt is concerned, because most of her public debt is productive, and yields a large revenue. The bulk of her debt is invested in solid and lucrative assets like railways or is loaned out to the States.

An important war-time development was the virtual wiping out of the country's foreign debt. Funded debt of India in Great Britain which stood before the war at £300,000,000 was extinguished. The total amount of repatriated sterling debt up to February 21, 1944, was £350 million. Since then the railway annuities and debenture stock, too, have been virtually liquidated. That the character of public debt in India has undergone a significant change is clear from the fact that it is now largely in the form of rupee debt. In 1938-39, the sterling debt was Rs. 464.94 crores, and by 1945-46 it came down to barely Rs. 41 crores.

But how has this miracle been accomplished? India's balance of trade was markedly favourable; she sold more than she purchased from outside; she sent large quantities of military supplies to the British Government; she incurred expenditure on behalf of the Allies; she had to recover a portion of war expenditure from the British Government. She also received a substantial amount towards the cost of modernization of the equipment of the Indian Army. All these factors cumulatively turned the scales in favour of India. India accumulated sterling balances which stood at £1,330 million on March 31, 1946. Since then they have been falling due to large imports of foodgrains and consumer goods and recurring trade deficits.

Size and Composition of the Public Debt

The interest bearing obligations of the Government of India include public debt, unfunded debts, deposits bearing interest and foreign debts. These obligations rose to Rs. 2,500.73 crores in 1950-51 to Rs. 5,455.03 crores in 1960-61. An event in 1960-61 was the issue of Prize Bonds with effect from April 1, 1960. The Government of India issued five-year interest-free bearer Prize Bonds in denominations of Rs. 100 and Rs. 5. The holders of

the Bonds participate in quarterly drawal of prizes, which are free of income-tax. The prizes range between Rs. 500 and Rs. 25,000 in case of 100-rupee bonds and Rs. 7,500 and Rs. 50 in case of 5-rupee bonds.

As against these liabilities, interest-yielding assets of the Government of India (capital advanced on railway, posts, and telegraphs, public sector industries, State Governments, etc.) amounted to Rs. 1,681.21 crores at the end of March 1951, and rose to Rs. 5,089.65 crores in 1960-61.

The composition of the Public Debt by the end of March 1965 is expected to be as follows:

		(Rs. in crores)
Total Public Debt (India)	..	4,757.74
Total unfunded Debt (including Small Savings)	..	2,218.35
Total Deposits (India)	..	264.36
Total Public Debt (Foreign)	..	2,418.14
Total Public Debt (both internal and external)	..	9,658.59

As against the interest-bearing obligations, the interest-yielding assets of the Government of India at the end of March 1965 are expected to be as follows:

		(Rs. in crores)
Capital advanced to Railways	..	2,387.06
Capital advanced to other Commercial departments	..	306.79
Investment in Commercial Concerns (Industrial)	..	1,012.44
Capital advanced to States	..	3,392.71
Capital advanced to Union Territory Governments	..	27.24
Other interest-bearing loans	..	1,164.86
Sterling pensions Annuities purchased	..	14.23
Debt due from Pakistan	..	300.00
Total interest-yielding assets	..	8,605.36

The outstanding public debt of the Government of India is expected to amount to Rs. 7,183 crores at the end of the current year and Rs. 7,842 crores at the end of 1965-66.

According to the explanatory memorandum on the budget, public debt at the end of next year will consist of Rs. 5,077.78 crores of debt raised in India and Rs. 2,763.80 crores to be raised outside the country.

Debt raised in India comprises "permanent debt" and "floating debt." "Permanent debt" covers loans raised in the open market including prize bonds and 15-year annuity certificates and 'floating debt' represents borrowings of a temporary nature and in-

cludes ad hoc Treasury Bills issued to the Reserve Bank of India and State Bank and other treasury bills.

The debt raised outside India at the end of 1965-66 will amount to Rs. 703.21 crores under the head "Loans from U.S.A." Rs. 109.51 crores from the U.S. Export-Import Bank and Rs. 531 crores under PL 480 funds.

Loans from the Government of United Kingdom will amount to Rs. 269.45 crores, Rs. 288.67 crores from the Soviet Union, Rs. 190.62 crores from West Germany, Rs. 171.67 crores from the World Bank and Rs. 205.78 crores from the International Development Association.

The budget provides for a repayment of Rs. 97.29 crores in 1965-66 towards debt raised outside India, as against Rs. 85.11 crores in 1964-65.

The budget also makes a provision for payment of a total of Rs. 693.41 crores as loans and advances to State Governments. The revised figure under this head for the current year is Rs. 6J0.80 crores.

India's public debt position is, on the whole, quite sound. This is so, firstly, because India's public debt is to the extent of over 90 per cent an internal debt. And the servicing of an internal debt involves only an internal transfer of income from the tax-payers to the debt-holders and entails no net burden on the community. Moreover, since the external debt is not very large, the foreign exchange required annually to service it involves only a small burden on the country's foreign exchange resources. Secondly, the public debt position is sound because only 20 per cent of the debt is unproductive. Even if Rs. 300 crores due from Pakistan are written off as irrecoverable, the unproductive debt would be no more than 25% of the total.

CHAPTER XXXII

State Finance

At one time the Indian provinces had no independent financial existence. They were at the mercy of the Centre and were fed by annual grants. The process of financial devolution culminated in 1919 in a clear-cut division of revenue sources between the Central and Provincial heads. Now the taxes within the jurisdiction of State, given in List II, Seventh Schedule, are: land revenue, taxes on sale and purchase of goods except newspapers; taxes on agricultural income; taxes on lands and buildings; estate and succession duties in respect of agricultural land; excise on alcoholic liquors and narcotics; taxes on the entry of goods into the local area; taxes on mineral rights subject to any limitation imposed by Parliament; taxes on the consumption or sale of electricity; taxes on vehicles, animals and boats; stamp duties. except those specified in the Union List; taxes on goods and passengers carried by road or inland waterways; taxes on luxuries including entertainments, betting and gambling; tolls; taxes on professions, trades and callings and employment; capitation taxes and taxes on advertisements. The States are forbidden to tax (a) imports or exports, (b) inter-State trade, and (c) sale of goods declared essential for the life of the community.

The total revenue of all the States put together has been estimated for 1964-65 (B.E.) at Rs. 1,554.69 crores and total expenditure Rs. 1,547.94 crores.

State Revenues

General Sales Tax

This is now the biggest source of State revenue. The sales tax was first introduced in Madhya Pradesh in 1938 in the form of petrol tax. In 1939, Madras introduced the general sales tax on the multi-point system. Next Bengal adopted single-point system in 1941. The Punjab Act of 1941 was based on the multi-

point model, and Bihar followed the single-point system in 1944. Then all States gradually levied the sales tax, so that after 1948 the sales tax was in operation in all the States.

Under the Indian Constitution, the States were empowered to levy a tax on sales or purchases of goods other than newspapers. But under Article 286, the States' power in this regard was restricted in some respects. They are not allowed (a) to tax sales or purchases outside India, (b) sales outside the State, and (c) sales in the course of inter-State trade. This resulted in loss of trade to the States which led to readjustment of the sales tax. For instance, Bombay changed from the single-point model to the multi-point model and so on.

Thus different systems of sales tax are prevalent in India. There are the selective sales tax, the general sales tax, the multi-point tax, the single-point tax and the double-point tax. There is also the purchase tax as distinguished from the sales tax. The sales tax is levied on the sellers, whereas the purchase tax with reference to the same transaction, is levied on the purchaser. If the tax is assessed on the turnover of sales, it is a sales tax, but if it is on the turnover of purchases, ignoring whether he has sold these goods, it is a purchase tax. When the tax is levied on selective goods, it is known as the selective sales tax. But when it is imposed on generality of goods or all goods passing through a dealer, i.e., his turnover, it is a general sales tax.

In a single-point system, the tax is levied at one point in the chain of dealers. But in a multi-point system each dealer in the chain has to pay tax. A double point system levies the tax both at the entry and exit of an article in a sector of business. In a single-point system, the rate is high and exemptions are few, whereas in the multi-point system the rate is low and exemptions are many.

The exemptions from the sales tax are of four categories: (a) goods regarded essential, (b) goods which are already taxed appreciably under other laws, (c) products of certain cottage and village industries, and (d) other goods like text-books, sacred books, agricultural implements, cattle feeds, fertilizers, medicines, etc.

Several suggestions have been made by businessmen and others to modify or replace the present system of sales tax. The main suggestions are: to enlarge the scope of sales tax, to confine the tax to certain selective commodities, to introduce first-stage single-point tax, to have a low point sales tax in all States, introduce a purchase tax to replace sales tax by an extension of excise, customs and octroi, etc. But in the view of the Taxation Enquiry Commission, none of these alternatives constitutes a solution of the problems created by the working of the sales tax within the context of the existing Constitution. The difficulty in the operation of sales tax arises when, either the dealer who pays the tax or the consumer who bears it, resides in different States.

The result is that the State Governments have sought to exercise jurisdiction over dealers who are residents of other States and consumers have tried to purchase direct from dealers in other States to evade the tax.

The Taxation Enquiry Commission suggested Central legislation to regulate inter-State transactions or trade in goods of inter-State importance. The recommendations of the Second Finance Commission (1956-57) in respect of the sales tax have already been given earlier in this chapter. As a result of the State Ministers' Conference held in November 1957, it was decided to replace sales tax on cloth, sugar and tobacco by an additional Union excise duty on these commodities. It was estimated that it would increase the yield from these taxes by Rs. 8 crores.

The 1964-65 budget estimates show the total yield from the General Sales Tax at Rs. 253 crores. This is about 14% of total estimated revenue receipts.

Land Revenue

Land revenue has occupied a very prominent position in the Indian tax system. In 1964-65 (B.E.), it was expected to yield Rs. 118.55 crores to all the States (i.e., 12% of the total receipts).

But the Indian land revenue system is full of anomalies. A non-agriculturist earning less than Rs. 3,000 a year is not taxed; but even the poorest peasant, hardly earning enough to support himself and his family for a few months in the year, has to pay land revenue. The U.P. Banking Enquiry Committee considered 30 per cent of holdings to be uneconomic and another 52 per cent just on the margin. Obviously the Government cannot afford to incur a huge loss of revenue by freeing 82 per cent of the holdings from the payment of land revenue. Exemption of uneconomic holdings will encourage further fractionalization. Besides, it is difficult to fix on any objective test of an economic holding; it will vary from State to State. There are scores of other administrative difficulties. And yet some way must be found to give relief to the Indian peasant who is the poorest and the most heavily taxed in the world.

The land revenue demand forms a certain percentage (generally 25%) of 'net assets' but there are wide State variations in this respect and also in the terms of settlement. It varies to the extent of 28 per cent between State and State and 300 to 400 per cent if viewed in relation to the provincial population.[1] Its proportion to rent ranges from 50 to 20 per cent in the U.P., 42 to 7 per cent in the M.P. and 100 to 10 per cent in Madras.[2]

The rigidity of the land revenue arises from the fact that it is fixed for a long period. This defect has been overcome in the Punjab by the introduction of a sliding scale system.

1. C. N. Vakil: *Fiscal Development in British India*, 1926, p. 371.
2. Rangaswamy Aiyangar: *Some Modern Trends in Public Finance*, 1936.

There is no doubt about this tax being regressive. But since the early part of British rule, the burden of land revenue has steadily and progressively tended to decline. The proportion of land revenue collected to total revenue (both Centre and States) declined from about two-thirds in the first half of the nineteenth century, to one-third by the beginning of the First World War, to about one-sixth before the Second World War, and to about one-twelfth at present. This is due to the development of new forms of taxation.

The shortcomings of land revenue have been summed up thus: "It is uncertain in incidence, incorrect in assessment and collection, uneconomic in its administration, unequal in its distribution, and inelastic; and far from benefiting the cultivator who pays the tax it is prejudicial to the growth of capital and improvements in agriculture."[1] But in spite of this, in the opinion of the Taxation Enquiry Commission 1953-55, there is no real substitute for land revenue.

Land revenue, however, occupies a comparatively unimportant position in our tax system today. The yield from land revenue increased in U.P. after the abolition of zamindari. The long period after which assessments are revised and the restrictions imposed on upward revisions, render it an inelastic source even in normal circumstances. Its comparative position in the tax structure has been worsened due to almost indefinite postponement of the revision of assessments which fell due. But land revenue is still the largest single source in Assam, Madhya Pradesh and Uttar Pradesh. In view of the difficulties of large-scale resettlement operations, surcharges have been proposed in several States on an ad hoc basis to obtain larger receipts, but such proposals have not found much favour.

Agricultural Income-tax

The greatest gap in our system has been the continued exemption in some States of agricultural income from taxation. The case for subjecting agricultural incomes to a tax is so convincing that it is really surprising why they continued to enjoy this immunity till recently. "On grounds of equity," remarks the Indian Taxation Enquiry Committee, "there is no reason why the surplus of the large landholder should be exempted."[2]

Reference to history does not support any claim for this exemption, because agricultural incomes were liable to income-tax between 1860 and 1873 with a short gap of four years. The argument that agriculturists pay land revenue in lieu of income-tax, and that if they had to pay the income-tax too, it will amount to double taxation, is also not convincing. The land revenue demand is fixed for a long period; it is not graduated and does not vary according to the variation in the value of the agricul-

1. Narasimha Aiyangar: *Indian Journal of Economics*, VII (1927), p. 147.
2. Indian Taxation Enquiry Committee Report, 1924-25, p. 223.

tural produce. Therefore, there was no ground whatsoever for the continued exemption of agricultural income from taxation.

The taxation of agricultural income is intended to strengthen the State finances; it will rectify to some extent the regressive character of our tax system; and it will equalise the burden of taxation between the agriculturists and non-agriculturists on the one hand and the landlord and the cultivator on the other. It will tax the non-agricultural income of a landholder at a higher rate. It will also, incidentally, put a stop to the tendency of investing savings in land to escape taxation. Now that the value of the produce of land has increased enormously, the tax-gatherer must claim his share out of the enhanced agricultural profits.

The assessment of agricultural profits is no doubt difficult, but the difficulty is not peculiar to India. We have got a very elaborate organization for keeping land records and for the administration and collection of land revenue. We should, therefore, have much less administrative difficulty in the matter. So far only vested interests have stood in the way. Even a very moderate proposal of the Government of India in 1918 to take agricultural income into account for determining the rate for their income-tax was turned down, though the Government of India was prepared to face new administrative difficulty. One would wish that a more sound and fair sense had prevailed in the Indian legislatures where the land-owning interest predominated.

This very desirable fiscal reform could not, however, be long resisted. Bihar was the first to introduce tax on agricultural incomes. Many other States followed suit. It is now levied in Assam, Bengal, Orissa, U.P., Andhra Pradesh, Kerala, Madras, Rajasthan, Coorg, Madhya Pradesh. In February 1956, the Punjab Government approved the principle of levying agricultural income-tax. In some States, the rates of levy have been laid down in the enactment itself and in others the rates are fixed annually in the Finance Acts. For the sake of administrative convenience as also on consideration of equity, the States have prescribed a minimum exemption limit. These limits and the rates have been changed from time to time, the former lowered and the latter increased as was found necessary. In a few States, agricultural incomes have been subjected also to the supertax. The tax rates in all States are based on the slab system, the first slab of Rs. 1,500 being exempt.

The Taxation Enquiry Commission (1953-55) recommended that in all States all incomes above Rs. 3,000 a year should be made liable to agricultural income-tax. This limit has already been adopted by most of the States. This will remove the anomaly arising from treating agricultural and non-agricultural incomes as two distinct compartments. The Commission recommended that steps should be taken towards eventual integration of the two incomes. The extension of the agricultural income-tax will make the land revenue systems in India more equitable. It

will also help to remove the major anomaly that the higher incomes from agriculture do not contribute to the Exchequer anything like the same extent as the corresponding non-agricultural incomes. The Commission also recommended for the same purpose that the States should adopt a system of surcharges or agricultural income-tax on the basis of assessee's non-agricultural income, if any.

In September 1958, the Madras Assembly amended the Agricultural Income Tax Act to levy income-tax on all types of agricultural income. Till then the State Government had been levying income-tax only on incomes from tea, coffee, rubber and cardamom plantations. Persons whose income is below Rs. 3,600 are exempted from the tax. No enhanced exemption limit is allowed in the case of Hindu joint families. The rate of tax rises from 5 **paise** on the first slab to 45 **paise** in the rupee on incomes exceeding Rs. 25,000. There is no super-tax. In assessing the total agricultural income of an individual his non-agricultural income would not be taken into consideration. To the smaller assessees, the bill provided facility for compounding the tax in order to relieve them of the burden of keeping detailed accounts. The facility is allowed only in cases where the extent of land is not more than 50 acres. In the case of assessees, who opt to compound the tax, the first 12½ acres are exempt from the tax. On the balance of their holdings of 50 acres, the composition rates range from Rs. 4.50 per standard acre on the first slab to Rs. 15 on the final slab. Temples, **muths**, and other charitable endowments are exempt. The assessees pay land revenue but surcharge on land revenue is abolished.

Taking all the States together, the 1964-65 budget estimates provided for an income of Rs. 10.26 crores from agricultural income-tax.

Irrigation Charges

The present system of irrigation charges has developed differently in different States with the result that there is multiplicity both in the principles and in the rates of assessment. The most important systems of levying water charges are: (a) volumetric, i.e., according to the quantity of water supplied; (b) consolidated rate, i.e., water charges are consolidated with land revenue; (c) differential rate corresponding to difference between the assessments on dry lands and wet lands; (d) occupier's rate, i.e., charged on the area actually irrigated; and (e) agreement rate, i.e., fixed by agreement for a period of years, whether water is taken or not.

Owing to the heavy rise that has taken place in the prices of materials and in wages and the salaries, the cost of construction of new irrigation works and the maintenance of old works has increased very much. The result is that the average running expenditure on major systems varied between 54—77% of gross receipts during the years 1948-49 to 1950-51. The ac-

cumulation of interest charges and the large-scale extension and renovation of small schemes under the grow-more-food campaign have further contributed to increase in expenditure. Hence the significance of irrigation as an item of revenue in the States' budgets has dwindled relatively through the growth of other resources. In 1964-65 (B.E.) the net irrigation receipts for all States taken together were estimated at Rs. 14.48 crores, i.e., less than 2% of the total revenue.

Improvement in agricultural prices in recent years has provided scope for revision of rates, and several States have taken steps to impose additional charges to raise existing rates. It is not possible to make a general statement whether water-rate is a service charge or includes an element of tax. In the case of more recent irrigation works, the water rates do not yield enough income even to cover water service costs. On old works, however, the Government may realise some profit. The scale of water rate being largely fixed in consideration of economic and other circumstances of the area concerned, it is of the nature of service charge in some areas and of a tax in other areas

Broadly speaking, the assessment of water rates may be regulated according to three different principles, namely, (a) no profit and no loss; (b) some profit and no loss; (c) no profit and some loss. But no one principle can be recommended for universal application. Ordinarily the water rates must cover the maintenance charges, i.e., no profit and no loss principle. But for a scarcity area, the principle will be 'no profit but some loss'. In areas other than scarcity areas, i.e., in the case of productive irrigation work, there should, as a rule, be no loss to the general revenues. Accordingly, water charges have to be of two varieties: (a) a small charge to cover the cost of repairs, establishment and drainage, whether water is taken or not, and (b) an additional charge for supply of water to cover the debt charges, overhead expenses, etc., to be levied on those who actually get water.

There are grounds for a generous treatment of the cultivator. It is wrong to think that a particular class benefits from irrigation works. They increase national income and taxable capacity; they save life in times of famine and obviate the necessity of remission and suspension of land revenue. Therefore they have to be considered from a broader social point of view.

Betterment Levy

In order to meet the minimum maintenance charges and to avoid possible losses on irrigation works, it is proposed to introduce betterment levy, especially to enforce compulsory charges in project areas where adequate response is not forthcoming. A committee appointed by the Government of Bombay in 1947 recommended the imposition of a compulsory irrigation cess in the shape of small fee to be paid by every land-owner under the irrigable command of a canal system, irrespective of whether

water was or was not used. Similar proposals have also been made for areas commanded by Chambal Valley Project, the lower Bhavani Project, Hirakud Project, Tungabhadra Project and Mayurakshi Project. The idea is to appropriate an element of unearned increment in the values of land due to the introduction of canal irrigation and which is not, in any way, due to the efforts of the individual landowner. What is taken through the water rate constitutes but a small proportion of the increased income of the land-owner. It will provide additional resources to the Government.

The principle of sharing the unearned increment derived from irrigation projects has been accepted in India and several State Governments have taken the power to impose a levy on new projects, e.g., Bombay, Madras, Punjab, Rajasthan and Andhra. All the States provide for payment of betterment levies, either in full in which case a rebate from 7—20% is given or in instalments spread over a maximum period of 30 years. The landholders are also given the option of surrendering a part of their land in lieu of payment of the betterment levy. Many States have also accepted the principle that a betterment levy should not exceed 50% of the increment in land value, whatever be the basis of computation of such incremental value.

State Excise

For the majority of States, excise on alcoholic liquors has been second in importance among their sources of revenue. For some States, receipts from excise duties are even larger than from land revenue. Revenue from this source was estimated at nearly Rs. 71 crores in 1964-65 (B E), i.e., 7.2% of the total estimated revenue receipts for the year. But it is not the revenue consideration that has affected public policy in India in this respect but a desire to reduce liquor consumption

The excise revenue is derived from the duty on manufacture of alcoholic liquor, drugs, opium, etc., and from licence free from the vendors. In recent years, the excise revenue has gone on decreasing or has remained stationary. In course of time, this source is sure to get dried up. It is the wish of every social reformer in India to see the evil of drink stamped out from the country.

The Government has been trying to check consumption by moderately high duties which may not encourage illicit distillation. The Congress Ministries boldly launched on the policy of selective and gradual prohibition. Total prohibition at one stroke seems to be beyond the pale of practical finance. Apart from loss of revenue, it will mean increase in administrative expenditure in checking smuggling or illicit distillation. But through the reduction of number of shops, limitation in number of open hours, restricting the supply, higher tax on stronger liquor and curtailment of other attractions in the shops and

gradual extension of 'dry' areas, the goal of prohibition can be realized.

The Taxation Enquiry Commission has recommended the fixing of a target date by which all States should introduce total prohibition.

Forests

Forests require a very liberal capital outlay for a long time before they can be made to yield a handsome return. Money has to be spent lavishly on afforestation, protection and development of the means of transportation. Private enterprise cannot do it. But the State can well afford to do it and can patiently wait for the return, for it is not expected to discount future at heavy rate. Frankly speaking, our expenditure on forests has been much less than it would seem necessary. The bulk of the revenue is derived from the sale of timber, fuel and other minor produce and from fees on grazing. The 1964-65 Budget Estimates provided for a total income of Rs. 36.65 crores from this source. This is a little over 2% of the total revenue receipts.

Stamps and Registration

Stamps are judicial and commercial, the former affixed on plaints and petitions, and the latter on commercial transactions. There are some people who think judicial stamps are a tax on justice. But it should be borne in mind that in such cases, the administration has always to perform certain services to the litigant public. The registration fee is charged when documents relating to immovable property are registered. An increase in this revenue may mean economic distress compelling the people to alienate their property. It is a payment for ensuring a satisfactory record of the transaction and to prevent, or easily settle, any further dispute on the point. Stamps and Registration were estimated to yield Rs. 61.66 crores in 1964-65 (B.E.). This amounts to over 5% of the total revenue receipts of all the States.

Share of Income-tax

The States' share in the income-tax collected by the Indian Government has now become a major source of State revenues. In 1964-65, the States were estimated to expect Rs. 128.28 crores from this source. The implementation of the recommendations of the Second Finance Commission raising the States' share to 60% increased the importance of this source of State revenues.

Share in Union Excise

Up to 1957, 40% of the net proceeds from the Union excise duties on matches, vegetable products and tobacco used to be given in the States. In 1964-65, the States' share was estimated at Rs. 141.71 crores. The recommendations of the Second Finance

Commission, increasing the number of commodities to eight, increased the revenue accruing to the States from this source.

Grants

The States receive grants from the Centre under Articles 273 and 275 (1) and for specified purposes. The States were estimated to receive Rs. 279.48 crores from the Centre in 1964-65 on account of grants-in-aid and other contributions. The recommendations of the Second Finance Commission in respect of such grants have been given earlier.

Besides the above sources, there are Departmental Receipts which were expected to yield Rs. 104.82 crores in 1964-65 (B.E.).

Other important sources of State Revenue are: Motor Vehicles Tax, Entertainment Tax and Electricity Duties.

State Expenditure

The States have very important and essential duties to perform, more important being **security services** and **social services.** Security services, also called **Civil Administration,** include general administration, police administration of justice, jails, etc., and social services relate to education, medical, public health, agriculture, industries, co-operation, veterinary, etc.

The other heads of State expenditure are: **direct demand on revenue** (i.e., the cost of collection of taxes), **civil works** and **debt services.**

Security Services or Civil Administration

As Defence services swallow up a large part of the revenue of the Central Government, similarly, security services, especially police, consume bulk of the States' revenues. For 1964-65 security services, or Civil Administration, have been estimated to cost Rs. 215.57 crores. This amount comes to about one-fifth of the total expenditure. Police expenditure has risen almost in all States, especially in Punjab and West Bengal.

Social Services or Development Expenditure

The need for a large extension of such services is very urgent. So far, owing to very inadequate funds, the State Governments have not been able to provide even the minimum standard which a civilised country should have. The limitation of resources still continues to be the obstacle. However, expenditure on such services is being raised for implementing the various schemes included in the States' Five-Year Plans. For 1964-65, it has been estimated at Rs. 905.04 crores or about 60% of the total estimated expenditure. In the expenditure on the various social services for 1963-64, education accounts for Rs. 266.31 crores, medical and public health services Rs. 110.92 crores and agriculture, veterinary and co-operation Rs. 100.67 crores and rural and community development projects Rs. 63.21 crores.

Direct Demands on Revenue were estimated to consume Rs. 70.62 crores in 1964-65 (B.E.).

Debt Services accounted for Rs. 290.90 crores in the budget for 1964-65, as compared with Rs. 18.84 crores only in 1955-56. The big rise in this item is due to the development loans obtained by the State Governments from the Centre or raised in the market in recent years, and to the zamindari abolition bonds issued by some State Governments.

From the above, it will be seen that while urgent needs of elementary social services are still far from being met, the State taxation has reached a point beyond which it is very difficult to push it. Under such circumstances, best efforts should be made on the one hand to effect economy in administration and police and, on the other, to adopt a policy of 'go slow' in social reforms like prohibition.

Recent Tendencies in State Finance

Over the last twenty years, State Finance has undergone many far-reaching changes. The important ones among them are as under :—

(1) To begin with, during war-time and since the war, especially since the commencement of the Five-Year Plans, both **revenue and expenditure of State Governments have considerably increased.** As against Rs. 79.42 crores in 1938-39, their total revenue rose to Rs. 238 crores in 1946-47 for undivided India, to Rs. 405.41 crores in 1951-52 for the States in the Indian Union and to Rs. 1,010.76 crores in 1960-61 (R.E.) and Rs. 1,554.69 crores in 1964-65 (B.E.). This increase in revenue has resulted from the inflationary rise in money incomes and expenditure increase in tax rates, imposition of new taxes like sales tax, entertainment tax, etc., and increased share in Central taxes like income-tax, union excise, etc. Expenditure has also correspondingly increased. The total expenditure of all States was Rs. 392.68 crores in 1951-52, Rs. 996.89 crores in 1960-61 (R.E.) and Rs. 1,547.94 crores in 1964-65 (B.E.). The increased State expenditure has been due to increased outlay on social services after Independence and increased development expenditure under the Five-Year Plans.

(2) **The emergence of sales tax as the premier contributor** to the States is another striking development. The tax did not exist before 1939-40 Now in 1964-65, it is expected to yield Rs. 253 crores to the State Governments. Administration of this tax is, however, very difficult and there is a lot of evasion. The tax has also not been levied on a uniform basis in all the States.

(3) The **regressive nature** of State revenues has been accentuated still further particularly through the imposition of sales tax (even on necessaries in most States), and through higher rates on stamps, registration, entertainment, excise. etc.

(4) Though during war-time **revenue from excise** greatly increased yet after the war it **has greatly declined on account of the**

policy of prohibition which has been introduced in most States, notably Madras (completely dry since October 1948) and the former Bombay State (before its bifurcation into Maharashtra and Gujarat completely dry since April 1950). It has fallen from Rs. 53 crores in 1945-46 to Rs. 43.49 crores in 1955-56 and Rs. 42.7C crores in 1956-57. Since then it has been rising. It has been estimated at Rs. 70.99 crores in 1964-65 (B.E.). This has made the financial position of the States very difficult. They have had, therefore, to look anxiously for other sources of revenue and have had also to go slow with the extension of social services.

(5) With increasing outlay under the Plans to which the States are committed, there has been a **substantial increase in the total resources made available to them by the Centre** (in the form of share of divisible taxes and duties, grants and contributions) especially following the Second Finance Commission's award in November 1957. The total of such resources rose from Rs. 373 crores in 1956-57 to Rs. 529.47 crores in 1964-65 (B.E.).

(6) Another trend witnessed during the last few years has been the **persistence of overall deficit** which emerged in 1955-56, in place of the overall surplus in the preceding two years. The year 1958-59 has, however, been an exception, with an overall surplus of Rs. 54 crores. But overall deficits have recurred since then: 1959-60 closed with an overall deficit of Rs. 42 crores and for 1960-61, the deficit has been put at the higher figure of Rs. 60 crores.[1] The year 1961-62 closed with an overall deficit of Rs. 47.78 crores. However, the year 1962-63 closed with a surplus of Rs. 23 crores nearly and 1963-64 with a surplus of Rs. 36 crores (R.E.). The surplus in 1964-65 budget has been put at Rs. 6.75 crores. Had it not been for the receipt of increased resources from the Centre the overall deficits of the States would have been larger still. This growing strain on the financial position of the States as a whole has been mainly due to the stepping up of the Plan outlay, particularly in the last two years of the Second Plan period. Apart from commitments under the Plan, another source of strain on the financial resources of States has been the increasing commitments on account of payment of increased emoluments to Government servants sanctioned in several of the States.[2]

(7) In the post-war years, the **States have been drawing heavily on their cash balances**, which they had accumulated during the war of post-war reconstruction. As a consequence, the reserves of the State Governments have been experiencing a gradual decline. Most of the State Governmnts have completely exhausted their reserve funds. The year 1960-61 is expected to close with a negative cash balance of the State Governments estimated at Rs. 2 crores.

(8) There has been a **welcome trend towards more expen-**

1. *The Reserve Bank of India Bulletin*, May 1960, p. 629.
2. *Ibid.*, p. 627.

diture of development nature as compared to that on the Civil Administration and other non-development expenditure. This increased development expenditure has been due to the implementation of the various schemes under the Five-Year Plans. Total development expenditure in 1951-52 was Rs. 196.21 crores, whereas the budget estimate of the total development expenditure for the year 1960-61 was Rs. 582.5 crores, Rs. 905.04 crores for 1964-65 (B.E.). As compared with this, the expenditure on Civil Administration in the year 1951-52 was Rs. 106.65 crores, whereas its budget estimate for the year 1964-65 was Rs. 215.57 crores.

(9) Of late, the **State Governments have also increasingly taken to long-term borrowing from the market** for financing their development projects. For example, the total net market borrowings of State Governments in the first four years of the Second Plan amounted to Rs. 183 crores, and taking into account the proposed net borrowings in 1960-61 (Rs. 45 crores) the total net borrowings in the Second Plan-period as a whole would amount to the large figure of Rs. 228 crores.[1] For 1964-65 (B.E.), the total receipts from all types of loans have been put at Rs. 946.02 crores.

(10) Still another noticeable trend in States' finance is **towards diversification.** Quite a large number of new taxes have been levied in recent years. Some of these taxes are entertainment tax, betterment levies on land, surcharges on land revenue, taxes on motor vehicles, motor spirit, education cess, etc. Moreover, it is of interest to note that land revenue, general sales tax, motor vehicles tax, stamps and registration and electricity taxes have been showing a steady rise since 1951-52 while State excise and agricultural income-tax have been relatively static.

Drawbacks and Reforms

The following are the serious defects in State Finance: (1) State sources of revenue are not only **inadequate** for their requirements, but they are **static** and **inelastic** such as land revenue, stamps, etc. Some of them are actually declining, such as excise and stamps (with the extension of prohibition and **panchayats** respectively).

(2) The most **serious defects** is that the **State taxes are unequally distributed among the various classes of the community,** the poor bearing the heaviest burden. The bulk of land revenue, irrigation, judicial stamps and sales tax are all contributed by the poor.

(3) The **financial policy** of the State Governments is **very conservative.** They rely more or retrenchment than on development of revenues. For example, forests have not been much developed. Plea of inadequate funds has been advanced as an explanation. But the State Governments till very recently failed

1. *The Reserve Bank of India Bulletin,* May 1960, p. 639.

to utilize the method of public loans on any worthwhile scale to develop their economies.

(4) There is a **lack of uniformity in the tax structure** of the States. The **per capita amount of State taxation also varies** markedly, the lowest being in Orissa and the highest in Bombay. But this reflects not so much variation in the burden of taxation (relatively to per capita income) as the different levels of development and hence of per capita income in different States. Moreover, there is now a trend towards uniformity and lessening of inequalities in the per capita incidence of tax in different States.

(5) **On the side of expenditure,** the State finance has a very unsatisfactory record to show. Security services and direct demands on revenue swallow up a large part of State revenues. Moreover, the expenditure incurred by them benefits more the better off urban classes who contribute much less to State exchequer than the poor people residing in rural areas.

The following reforms in States' finance may be suggested:—

(i) As soon as possible, the percentage of States' share in income-tax may be increased further to 60-2/3%. This has been done by the Third Finance Commission.

(ii) Land revenue should be progressively decreased in case of poor peasants so that after some time uneconomic holdings are altogether exempted.

(iii) Progressive taxes on agricultural incomes or graduated surcharges on land revenue should be imposed without delay. It will make the broad shoulders bear their proper burden, and will enable relief to be afforded to the poor peasant. It will also rectify, to some extent, the regressive character of State taxes

(iv) A graduated succession duty or inheritance tax on agricultural property will also have the same effect and should be imposed at once.

(v) There should be better co-ordination between State and local finances so that both units of administration are able to maintain standards of efficiency in the services entrusted to them.

(vi) The greatest need is to diversify the character of State finances and decrease its unparalleled dependence on land taxes. This can be done by encouraging village industries and big industries in towns so that there is better balance between agriculture and industry. The development of trade and industry will open out new avenues of taxation.

(vii) In order to equalise the tax burden, articles and services consumed by the rich should be made the target of new tax. Taxes on trade and professions can be adjusted to the same end through a progressive scale of licence fees.

(viii) The policy of balancing the budget somehow or other should be replaced by a bold policy of liberal expenditure on pub-

lic works, and services calculated to develop human and material resources of the State. It can be done by additional taxation or borrowing. This policy will pay in the long run. We are now in a vicious circle. We are a poor people and cannot therefore pay more taxes, so that the resources of the State Governments are too limited to bring about economic development and consequent prosperity, and we remain poor. This vicious circle must be broken, and it can be broken at one end only, viz., the State first spending money and developing the resources of the State. There is not much scope for economy drive. We must insist on wise expenditure so that the revenues are appropriated for the right purposes.

State Finances under the Emergency[1]

The Chinese undeclared war on India was bound vitally to affect Indian finances. It super-imposed new stress on the already growing strains of the mounting development expenditure. There is no doubt that it is the Central Government which has to bear the brunt of additional burden arising out of the emergency, yet the State finances could not go unscathed. The State finances have been affected both directly and indirectly: directly because the States have to make larger provision for civil defence and reinforcement of police, particularly in border States, and indirectly because the Central Government faced with additional burden was bound to cut down its assistance to the States for execution of their development schemes. The States have thus to make their own efforts for mobilising both tax and non-tax resources. The emergency also imparted greater sense of urgency than the past in economising the non-plan expenditure. We give below briefly the effects of emergency on the various aspects of State Finances.

(1) Increase in Expenditure

The most striking effect of the emergency has been to raise the total expenditure bill of the States substantially. This increase has occurred both in the development expenditure and non-development expenditure. The total has increased from Rs. 1,121.3 crores in 1961-62 (accounts) to Rs. 1,294.5 crores in 1962-63 (R.E.) and further to Rs. 1,364.9 crores in 1963-64 (B.E.).

(a) **Development Expenditure.** The total development expenditure in 1961-62 (accounts) was Rs. 660.2 crores, in 1962-63 (R.E.) Rs. 731 crores and in 1963-64 (B.E.) Rs. 774.2 crores. Plan outlay for the States in 1963-64 was budgeted at Rs. 735 crores which was only Rs. 40 crores higher than the revised outlay in 1962-63. This shows the extent to which the Plan outlay had to be cut down or slowed down in 1963-64. In keeping with the reorientation of the Plan priorities, outlays on essential schemes like agriculture, electricity schemes and industrial development was stepped up while expenditure on multi-purpose river valley

1. See *Reserve Bank Bulletin*, April 1963, pp. 437-479.

schemes and buildings was reduced. Development expenditure which had amounted to Rs. 660 crores in 1961-62 (actuals) rose up by Rs. 71 crores (revised) in 1962-63 and was expected to go up further by Rs. 43 crores in 1963-64.

(b) **Non-development Expenditure.** There was substantial increase in budgeted outlays on non-development account. This increase was due largely to the mounting debt burden and increased loan repayment and, to a small extent, the expenditure on items associated with the emergency. The non-development expenditure went up from Rs. 461.1 crores in 1961-62 (actuals) to Rs. 590.7 crores in 1963-64 (B.E.).

In-all, the combined effect in the increase of the provision for development and non-development expenditure has been to push up in 1963-64 the total expenditure bill of the States by Rs. 136 crores (Rs 70 crores on revenue account and Rs. 66 crores on capital account).

(2) Increase in Resources

There has been an expansion in the overall resources of the States which in 1963-64 mounted to Rs. 118 crores. But this expansion could not keep pace with the increase in the total budgeted disbursements. This is mainly due to the fact that capital receipts have lagged behind. However, buoyancy in revenues from taxes is expected to continue. The measures of additional taxation introduced by several States during 1962-63 were expected to result in sizable increase of Rs. 92 crores in total revenues. On the other hand, capital receipts show only a rise of Rs. 26 crores, due mainly to a smaller increase in loans from the Centre. During 1963-64 resources of States would be augmented to a sizeable extent (Rs. 66 crores) as a result of the amendment of the Central Sales Tax Act, additional excise in the Central budget (Rs. 10 crores) and the introduction of Compulsory Deposit Scheme (States' share estimated Rs. 35 crores). The measures of additional taxation during the last three years, i.e., 1961—64, may be expected to bring in an additional yield over the plan period to about Rs. 435 crores or nearly 70% of the States' target for additional taxation of Rs. 610 crores.

The total revenue receipts of States recorded a rise of Rs. 186 crores in 1962-63 as compared to the actuals for 1961-62 and are expected to rise further by Rs. 92 crores in 1963-64. About 2/3rds of the increase in 1963-64 is on account of tax revenue. Of the increase of Rs. 61 crores in 1963-64 in tax revenue, as much as Rs. 54 crores is derived from expansion in revenue on account of taxes levied by the States, the States' share in Central taxes showing a rise of only Rs. 7 crores. The importance of the States' share from Central taxes, in the tax structure of the States has tended to diminish somewhat since 1960-61.

(3) Total Disbursements Outstrip Total Receipts

During this period, the tendency for the growth in total dis-

bursements to outstrip the growth in overall resources has persisted. Moreover, there has been a progressive widening of the gap between the two in spite of substantial increase in resources made available by the Centre to the States. The result has been that the overall budgetary gap of States has widened from Rs. 38 crores in 1961-62 (actuals) to Rs. 59 crores in 1962-63 (revised estimates) and further to Rs. 74 crores (on the basis of existing taxation) in 1963-64. The aggregate deficit of Rs. 170 crores in the first three years of the Third Plan is much higher than for the whole period of the Second Plan (Rs. 114 crores) or for the First Plan (Rs. 85 crores). The widening of the overall deficit is due to increasing deficit on capital account.

However, certain individual States have been able to achieve an overall balance between resources and outlays. For 1963-64 only three States, namely, Assam, Bihar and Orissa, showed surplus, while U.P. has virtually balanced its budget. But all the remaining States budgeted for overall deficit.

(4) **Economy Measures**

To bridge the gap between resources and outlays some States have adopted measures to effect economy in their non-plan expenditure. Such measures include postponement of new non-essential construction, a specified cut (generally 10%) in travelling allowance, cut in the consumption of electricity in Government offices, pruning down of expenditure on public entertainments and official functions stationery and furniture and suspension of fresh recruitment and diversion of surplus staff for civil defence work.

(5) **Shifts in Expenditure**

Over the past several years some significant shifts are discernible in the relative importance of the individual items of development expenditure. For instance between 1955-56 and 1963-64 the proportion of expenditure on agriculture to total development expenditure on revenue account has shown an increase from 12% to 13% while that on civil works a notable decline from 20% to 11%.

(6) **Shifts in Tax Revenues.**

Although the increase in tax revenue is shared by all the Heads but the expansion varies. It is substantial under General Sales Tax, Land Revenue and Motor Vehicles Tax. General Sales Tax continues to be the mainstay of the State tax resources and the revenue from this source has shown a progressive rise from year to year. However, its share in total tax revenue after rising from 20% in 1955-56 to 25% in 1961-62 came down to 23% in 1962-63. Land revenue has shown a decline in its share from 23% in 1955-56 to 14% in 1961-62 and remained at the same level in 1962-63. The share of the State excise has shown a persistent decline from 12% in 1955-56 to 9% in 1961-62 and 8% in 1962-63. On the other hand, with the increasing resort by States to new and

non-traditional taxes in their endeavour to step up their tax effort, the share of such taxes in the total shows a continuous rise. Thus share of motor vehicle tax shows a steady rise from 4% in 1955-56 to 6% in 1962-63. Similarly, share of electricity duty has moved up from mere 1.6% in 1955-56 to 2.5% in 1962-63. Under non-tax revenue grants from the Centre showed a substantial increase of Rs. 28 crores in 1962-63 as a result of recommendations of the Third Finance Commission. The net contribution of public undertakings is also expected to rise.

Loans from the Centre constitute the principal source of capital receipts from States. At Rs. 558 crores in 1963-64 they have accounted for 71% of total capital receipts of States as compared to 60% in 1960-61. Another important source of capital receipts is provided by borrowing from the market. The net market borrowings aggregated to Rs. 64 crores in 1961-62, Rs. 85 crores in 1962-63 and for 1963-64 they have been put at Rs. 61 crores.

(7) **New Tax Measures**

In order to meet increased expenditure, the States have resorted to a number of tax measures. Measures proposd by 12 States are expected to bring in an aggregate total revenue of Rs. 37 crores in 1963-64. All States have stepped up the existing rates of taxation and most of them have levied new taxes. As many as 9 States have introduced new measures of taxation. Some of the new measures are: tax on advertisements in cinemas (Rajasthan), tax on urban immovable property (Assam), duty on consumption of electricity (Jammu and Kashmir), tax on passengers and goods carried by motor vehicles (Kerala), water rates (Madhya Pradesh), tax on areas under commercial crops (Punjab), tax on goods carried by private carriers (Maharashtra) and a toll on new roads and bridges (Orissa). As regard enhancement of the existing rates, most of the States have stepped up sales tax on certain luxury items. A few States have, however, brought certain items of necessities also within the ambit of the sales tax, e.g., foodgrains in Madhya Pradesh and kerosene in Assam. A few States have incorporated in their budget proposals measures to raise additional non-tax revenue, e.g., enhancement of tuition-fees in colleges (Kerala), creation of State monopoly for trading in 'Kendu leaves' in Madhya Pradesh and increase in royalty rates on minor minerals in Rajasthan. As a result of these additional tax measures, it is hoped that anticipated revenue deficit of States (Rs. 30 crores) in 1963-64 will be converted into a surplus of Rs. 20 crores. Only 3 States have not resorted to additional taxation in 1963-64, namely, Bihar, Madras and Mysore.

(8) **Debt Position**

The outstanding debt of the State Governments stood at Rs. 3,073 crores at the end of March 1962. This would rise by Rs. 466 crores at the end of March 1963 and by another estimated Rs. 407 crores at the end of March 1964. This would largely be in

loans from the Centre. That the States are feeling this mounting burden of the debt is shown by the fact that terms and conditions of repayment of the loans were revised at the instance of the States and the dates of repayment were extended. Even then some of the State Governments have not been able to make the repayment regularly.

(9) **Centre-State Relations**

In view of the rising tempo of the development outlays in the State sectors, it is natural that there should be a progressive rise in the resources transferred by the Centre to the States. These transfers are in the form of share in taxes, grants and loans. The total resources transferred by the Centre to the States which rose by an average of 64 crores of rupees during the Second Plan rose by 120 crores of rupees per annum on an average during the first two years of the Third Plan. In absolute terms, the resources transferred rose from Rs. 424 crores in 1955-56 to Rs. 742 crores in 1960-61, further to Rs. 982 crores in 1962-63 and to Rs. 1,009 crores in 1963-64 (estimated).

In conclusion we might advise the State Governments, in the words of the Union Finance Minister (his budget speech 1963-64), "States must impose tight financial discipline, raise additional resources and keep their expenditure within their means". In the present context, the need for the States to maximise mobilization of additional resources has gained new urgency.

CHAPTER XXXIII

Unemployment

We have almost covered the wide field of Indian Economics. In the end, we would take up the study of national income and economic planning as a means of raising the national income. But before that we would like to discuss the unemployment problem in India.

During the war, the immense mass of humanity residing in India was fully absorbed in work. Unemployment was a rare phenomenon. But those were abnormal conditions and could not be expected to last long. Normally in India we find a vast mass of the unemployed floating hither and thither in search of jobs. We have no system of poor relief and no statistics of the unemployed persons. But statistical proof is hardly needed to prove what is so patent to everybody. There is, in India in normal times, a large-scale unemployment or under-employment though this fact is concealed by the existence of the joint family system which looks after the aged, the infirm, the disabled and the unemployed in the family Besides, the charitable disposition of Indians and their misguided religious sentiments help to maintain a numerous class of beggars. Their unemployment may not be involuntary, yet they cannot be considered as gainfully employed.

According to a National Sample Survey conducted in 1953, 7.10% of the population of the city of Calcutta were unemployed. According to another sample survey conducted in that year 2.59% of the population or 7.44% of the labour force were unemployed in towns with a population of 50,000 and above, excluding the four big cities of Calcutta, Bombay, Madras and Delhi. The latter survey also revealed that 8.48% of the population in these towns were under-employed, including 3.17% "severely under-employed". The total number of severely unemployed in the urban areas for the country as a whole on this basis would

work out at 27.4 lakhs. According to the Agricultural Labour Enquiry, the number of the rural unemployed in 1950-51 was about 28 lakhs On the basis of the available data, the Planning Commission estimated that early in 1956 there were, roughly speaking, 53 lakh unemployed persons in the country, 25 lakhs in the urban and 28 lakhs in the rural areas. At the end of November 1963, there were 26,05,715 applicants on the Live Register of the Employment Exchanges.

Types of Unemployment

The nature of Indian economy is much different from that of European countries. Consequently, the nature of unemployment here is not the same as elsewhere. In the highly industrialised countries, unemployment affects the industrial workers mostly. But, in India, we have three main types of unemployment: (a) Agricultural unemployment; (b) Industrial unemployment; and (c) Unemployment among the educated classes.

We shall consider these three types separately.

A study by the National Employment Service of the Ministry of Labour and Employment, of trends in the number and types of employment seekers during 1953-57, shows that of the seven occupational groups of applicants on the Live Register of Employment Exchanges, the unskilled services' category was the largest single group, constituting about 50% of the total number and the clerical services' group was the second largest. The other categories in order of magnitude were skilled and semi-skilled services, educational services, domestic services and industrial supervisory services.

AGRICULTURAL UNEMPLOYMENT

Causes

The history of Indian agriculture is a chronicle of intermittent and progressive depression. Just as India has its depressed classes, she also has a depressed industry, viz., agriculture. Being normally in a depressed state, Indian agriculture is unable to sustain the vast majority of the people who seek livelihood from the soil. Although there is no permanent unemployment among the agriculturists, there is a fairly widespread seasonal or casual unemployment, and there is chronic under-employment. The following are some of the causes responsible for the low efficiency of Indian agriculture:—

(1) **Increasing Pressure on the Soil.** The ever-increasing population of India is irresistibly drawn towards land in the absence of other handy and lucrative avenues of employment. Consequently about two-thirds of the Indian population depend on agriculture and allied occupations.

(2) **Seasonal Nature of Agricultural Operations and lack of Supplementary Industries.** There is a state of enforced idleness in the rural areas of India for three to four months in a year.

The period of involuntary unemployment varies from tract to tract. In the well-irrigated tracts, the farmer is busy almost throughout the year. In the canal colonies, he is kept engaged in their vocation for nine or ten months in a year. But in **barani** areas, the farmers may have to remain idle for 5 to 7 months in a year. According to the Krishnamachari (G.M.F.) Enquiry Committee, 1952, roughly 4/5ths of the agricultural population is unemployed or under-employed for nearly 2/3rds of the year and the remaining 1/5th is idle for nearly 1/3rd of the year. If our farmers had combined with agriculture some supplementary industries, like dairying, poultry, sericulture, bee-keeping, etc., they would have kept themselves profitably employed throughout. But that is not the case. Our farmers have no second string to their bow, and they depend solely on farming.

(3) The extension of area under cultivation has not kept pace with the increase in the farming population.

(4) There has been no appreciable improvement in the farming technique.

(5) Rains are either inadequate or untimely or there are floods making agricultural operations impossible or damaging whatever is grown. Indian agriculture is said to be a gamble in the rains

(6) The Indian farmer is in a state of chronic indebtedness and he utterly lacks capital

(7) Uneconomic size of holdings is another handicap.

(8) The subsistence nature of agricultural economy and its unplanned nature are also responsible for its backwardness.

(9) Inefficient marketing also accounts for its unprofitableness.

The cumulative effect of all the shortcomings of Indian agriculture mentioned above is to cause unemployment among the agriculturists. The standard of farming in India has reached to an incredibly low level, so that it cannot provide employment to millions who, by necessity or by preference, are wedded to agriculture.

Remedies

Reconstruction of Indian agriculture seems to be absolutely essential if periodic and seasonal ebbs of unemployment have to be avoided. Its nature as subsistence farming must change. Methods of cultivation must undergo a revolutionary change; agricultural technique must be stepped up. Irrigation facilities must be improved so that Indian agriculture does not remain at the mercy of the rains. The system of marketing must be rationalised. We must introduce crop planning. Area under cultivation must be increased by means of land reclamation schemes. Use of chemical manures, better seeds, better system of crop rotation, better sowing and better drainage are some of the other

measures that can be adopted to improve agriculture and decrease unemployment.

But the adoption of better methods of farming hinges on one important factor, viz., the size of the holding. Unless the size of agricultural holdings is reasonably enlarged, there is no hope of modernising Indian agriculture.

Above all, agricultural unemployment can be effectively remedied if there is evenness of population pressure. There are too many people on land now. The surplus of the rural population must be weaned away from agriculture and must be absorbed in trade and industry. A general economic development of the country at a speed unknown hitherto is essential to lighten the pressure on the soil and to reduce the incidence of agricultural unemployment.

Fundamental organisational changes are also called for. In the absence of organisational changes, other remedies may prove to be mere palliatives. We should introduce group farming. As S. Tarlok Singh puts it in his book **Poverty and Social Change,** "Without group control over the management of land it is not possible to create an organisational framework for bridging about a better agriculture for assuring equality and freedom to suppressed groups, for integrating the moral and industrial economy, and finally for creating new social values and incentives."

According to the Agricultural Labour Enquiry, the level of rural unemployment in 1950-51 was of the order of 2.8 millions. The First Plan failed to solve the problem. During the Second Plan period the new rural entrants to the labour force were estimated at 6.2 million. The Second Plan did not make any significant contribution to the solution of the unemployment problem. Special efforts were made to create jobs in the community development areas. But according to a recent survey conducted by the Planning Commission the impact of the community development programme on unemployment problem has been disappointing. A Rural Works programme of which a great deal was expected has made little progress, having found only 78,000 jobs at a cost of Rs. 160 lakhs up to the end of March 1963 and the Third Plan target of rural employment is nowhere in sight. Rural industrialisation of the right type can do a lot in relieving rural unemployment. Subsidizing inefficient modes of production and perpetuating obsolete techniques would never solve either the problem of increased production or of providing more jobs. A well-thought out plan that will modernize the village industry by adopting new techniques and new sources of power and that will integrate this production pyramidally with the more complicated urban and metropolitan production will do more for rural employment than doles and ad hoc charity. Japan is a shining example for us to follow in this matter.

INDUSTRIAL UNEMPLOYMENT

Extent of Industrial Unemployment

Here again, we are faced with a statistical black out. We have no reliable figures to assess the incidence of industrial unemployment in our country.

For a long time our industries suffered from shortage of labour supply. Neither the wage nor the living conditions in the cities were attractive enough to secure adequate labour supply. The Indian worker has been a farmer by preference and a mill-hand by necessity. The industrial workers were fugitives from the rural areas "to escape from destitution or social disabilities or from the penalties of law or from the severe penalties with which the village visits offences against its social and moral codes. Few industrial workers would remain in industry if they could secure food and clothing in the village; they are pushed and not pulled to the city."[1] The industrialists thus experienced great scarcity of labour. Labour was migratory and not permanent. The worker would always wistfully look back at the village and would leave for home at the earliest possible opportunity.

But the era of labour shortage is at an end. The conditions in the industrial centres may not have improved much but the conditions in the rural areas have become worse with the result that the labour market is now inundated by truants from the rural areas. There is thus a larger number of people seeking employment in industries: we cannot exactly say how many, but the number is bound to be considerable.

Why this Industrial Unemployment?

Our industrial system is unable to absorb our growing population and for this there are several reasons: (i) The industrial development in the country is immature and inadequate. The expansion of the industrial structure in India is not commensurate either with its vast resources or with the growth of its population.

(ii) The location of industries is very defective and uneconomic. There is overcrowding in certain centres which inevitably raises the cost of production. If the geographical distribution of industrial units had been rationally planned, the industrial structure would have been more economical and its capacity to absorb workers would have infinitely increased.

(iii) The cost structure is very rigid and does not respond to changes in the prices of industrial goods. Consequently our industries are periodically overwhelmed by depression which brings about unemployment.

(iv) The subsistence economy prevalent in our rural areas prevents the development of an adequate market for our industrial products.

1. Report of the Royal Commission on Labour, pp. 15-17.

(v) Our export industries have not been able to maintain their hold on foreign markets. There has been thus diminution of employment in export industries which is transmitted to other industrial sectors.

(vi) Fall in the purchasing power of the people due to inflation is another cause. This has led to contraction in demand for goods.

(vii) Rationalisation of certain industries has also thrown some labour out of employment.

The net result of the operation of these causes is to make our industrial system incapable of sustaining the heavy pressure of our increasing numbers, nor can it bring about an even distribution of employment pressures in the country. It cannot provide a stable labour market.

The Remedy

The remedy for industrial unemployment lies in stepping up industrial efficiency. Our industrial structure needs a thorough overhauling. Most of our industries need going through a process of rationalisation so that waste of all kinds is eliminated and industrial efficiency is raised to the highest possible pitch. Over-centralisation of industries will have to be rectified, the quality of the raw materials improved, technical training imparted to labour, capital resources mobilised, managerial skill improved and industrial organisation generally galvanised.

Apart from removing the shortcomings of the existing industrial structure, it will be necessary to launch far-reaching schemes of industrial development. Luckily, the Second Five-Year Plan lays a proper emphasis on the development of industries. The spirit of Swadeshi must be revived and intensified. The import policy should be so formulated as to encourage domestic industries. Industries should be helped to work to the fullest installed capacity. No factory should be allowed to close without Government permission. Compensation should be paid to those who are thrown out of employment in consequence of rationalisation. Small-scale and cottage industries should be actively encouraged.

The fact can hardly be over-emphasised that it is to industry alone that we can look forward to absorb the rising surge of the unemployed. Agriculture is already overcrowded, and so are the liberal professions. Development of industry is our solitary hope to relieve us from the miseries of unemployment. When our industry rises to its full stature, the stature to which it has every right to rise, unemployment will vanish. India has better chances of solving this problem of unemployment through the development of industries than many advanced countries. Our industrial structure is yet in a state of infancy and there is a great scope for further expansion. An industrial system built up carefully on a co-ordinated basis and as an integral part

of the general economic development of the country cannot fail to maintain a high level of employment.

UNEMPLOYMENT AMONG THE EDUCATED CLASSES

The problem of the educated unemployed constitutes a very serious and menacing problem. The educated unemployed is a dangerous person. He is vocal; he has influence; he nurses a sense of personal injury and, if the grievance is long continued and the numbers involved are large, as it is in India, the situation will be decidedly explosive, and will constitute a constant threat to the security and stability of the State. The unemployed persons belonging to this category are not 'dumbdriven cattle' but intelligent people, and will not accept an unenviable position lying down.

Why are the Educated People Unemployed?

The existence of unemployment among the educated classes is attributed to the too literary character of education. The system of education prevalent in India is divorced from real life. There is a mass production of graduates for the absorption of which no adequate demand exists. Our education takes a young man straight to M.A., after which, if he does not get a suitable job, he is doomed. There are very few alternative openings which can hold out prospects of a respectable living for young men who maintain a high standard during their academic careers.

Our system of education has elicited sharp comments. One witness stated before the Punjab Unemployment Committee in 1927 that Lord Macaulay's system of education "was meant to create a class of translators to serve purely as interpreters. Education has let these interpreters remain as interpreters and nothing more, with the addition that anything real is gone and the rest is all imitation and chaff where there is no place for anything conducive to make a human being of an Indian." Sir George Anderson, the President of the Punjab Unemployment Committee of 1927, himself admitted that the present system of education in its very inception was moulded with the special object of preparing boys for external examinations and training them for clerical vocations, and he described the matriculate product of the system as a "derelict, a wanderer on the face of the earth, unemployed because he is unemployable." It has been said that "the present education turns out no better stuff than indifferent **babus**". A diploma is regarded as a "magic passport to government service".

The late Mr. Armstrong, one-time Director of Public Instruction Punjab, however, put in a spirited defence of the existing education system before the Punjab Unemployment Committee of 1927. He said: "There can be no question that our literary form of education has in the past helped its pupils to secure a wide range of employment. In the West where the system of education is highly organised and provided all possible

types, unemployment is rife and is a problem the solution of which is not looked for in any reform of the educational system prevalent there but is tackled from the point of view of economic development and the consequent provision of work. Merely to alter the educational qualifications of the unemployed without decreasing their number is no solution of the problem, and to give our youths technical and vocational education without ensuring that industry and agriculture can absorb them when they finish their training, is merely to have one type of unemployment instead of another".

There is a great deal of truth in what Mr. Armstrong said. Mere change in the system of education is not enough; it must be accompanied by schemes of economic development so that jobs are ready when technical hands come out of the vocational institutions, otherwise we shall have instead of unemployed B. A.'s unemployed engineers and other technicians. Such a situation has always existed in India. We have always had a number of technically trained people among the unemployed.

With all this we must say that the system of education is defective. It is not calculated to equip a person satisfactorily for the struggle of life. The medium of instruction, which is a foreign language, means a tremendous strain on the immature youths and is sure to retard mental development. There are no two opinions about the defective nature of our educational system. Presiding over the All-India National Educational Conference held at Wardha in October 1936, Mahatma Gandhi observed: "The present system of education does not meet the requirements of the country in any shape or form. English having been made the medium of instruction in all the higher branches of learning, has created a permanent bar between the highly educated few and the uneducated many. It has prevented knowledge from percolating to the masses. The excessive importance given to English has cast upon the educated class a burden which has maimed them mentally for life and made them strangers in their own land." Again, "absence of vocational training has made the educated class almost unfit for productive work and harmed them physically". Now that India is free, we may soon expect a drive towards educational reconstruction. The medium of instruction has already been changed in many States from English to Hindi, the national language, or the regional language.

Extent of Unemployment among Educated Classes

It is impossible to ascertain the exact number of the unemployed persons among educated classes. But the absence of reliable statistics does not indicate the absence of unemployment. On the contrary, the fact is well-known that a large number of educated persons are not able to secure employment.

It is a common experience of all employers that hundreds of applicants scramble for a petty job. There were in 1953, 1,18,000

matriculates and graduates on the live registers of the Employment Exchanges. There was an increase of about 45,000 in the number of applicants for clerical posts between January 1952 and May 1953. In 1950, 45,000 people were placed in employment by the exchanges in jobs carrying emoluments of Rs. 30 per month and less. The number fell to about 44,000 in 1951 and to less than 16,000 in 1952. In the category of posts carrying emoluments of Rs. 30 to Rs. 60 per month, the number of placings fell from 2,44,000 in 1950 to 2,10,000 in 1952 and in the first quarter of 1953 to less than 30,000.

The Indian Universities have been manufacturing graduates and matriculates at a terrific speed. Since 1947-48 the number of matriculates has increased by something like 130%, intermediates by 100% and non-professional degree holders by about 6%. The number of graduates sent out by the Indian Universities was 20,646 in 1937-38 and it rose to 46,432 in 1948-49 and has increased manifold by now.

A study undertaken by the Manpower Division of the Directorate of Employment Exchanges, Ministry of Labour and Employment, of the pattern of unemployment among graduates as on May 15, 1957, showed that graduate unemployment was more widespread in West Bengal, U.P., Bombay and Delhi than in other States. The highest incident of unemployment among women graduates was in Kerala. About 93% of the unemployed seeking employment were men and about 7% women, 48% of the unemployed graduates were B.A.'s, 22.7% B.Sc.'s and 12.1% B.Com.'s.

Remedies

The obvious remedy is the reform of the system of education. Educational facilities should be more diversified so that the education imparted to our youth is not purely literary. Institutions for technical and vocational training should be multiplied, so that our young men are enabled to learn a craft and to start small cottage industries on their own account. This would obviate the need for seeking a job with some employer.

But economic development must proceed pari passu with educational reform. It is necessary to create jobs and not merely enough to fit people for the jobs. Only economic and industrial development of the country can multiply the jobs available for the people. The real remedy, therefore, is the fullest exploitation of the resources of the country and carrying through a comprehensive development plan so that opportunities of employment may be multiplied.

There is, in India, undoubtedly widespread unemployment among all classes in normal times. A great deal of distinguished or concealed unemployment or under-employment exists. The cause which lies at the bottom of all types of unemployment is the economic backwardness of the country. The productive

resources of the country have not been fully and properly exploited. This being the case, the only remedy is to accelerate economic development and make it commensurate both with the resources as well as the growing population of the country.

Unemployment is not an act of God, as the Indian masses given to fatalistic thinking are prone to imagine. Unemployment is not a natural calamity but the consequences of defective human organisation. It arises from the incapacity of the economic system to adjust itself to changing conditions, say, increase in population. If consumption and production are properly balanced, there cannot be unemployment. In the primitive society, where there was no exchange or distribution, production and consumption went hand in hand and unemployment was unthinkable. Let us, therefore, plan our economic system in such a manner that productive capacity and consumption propensity are in equilibrium. Unemployment is a great curse. Apart from the material waste it involves, it brings about demoralisation. It has to be avoided, to use the words of Beveridge, for "not the want it may bring but the hatred and fear which it breeds."

The Government seem to be fully alive to this serious situation of unemployment in the country and have already taken steps to meet it. The Finance Minister told the House of the People on September 4, 1953, that the Government of India had proposed a special education expansion programme to provide employment to the educated unemployed at an estimated cost of Rs. 14.7 crores. The Commerce and Industry Minister assured the House of the People that investment in the public sector would be kept up to relieve unemployed. The Central Government asked the State Governments to handle the problem of educated unemployment as an emergency and send their proposals to the Ministry of Education. The Minister for Planning told the House of the People on March 4, 1954, that definite schemes had been received from the State Governments for solving rural and urban unemployment. These schemes had been considered and finalised. Arrangements had been made for the expeditious sanction of finances by the Centre, which had also the machinery to watch the implementation of the schemes. In these schemes, maximum emphasis has been placed on their capacity to increase employment and production.

The Planning Commission formulated an 11-point programme to fight unemployment: (1) Establishment of work and training camps at places where work opportunities have been provided, e.g., in projects for slum clearance, housing for low-income groups, irrigation and power projects, road construction programmes, afforestation and soil conservation and co-operative land settlement projects, etc.

(2) Special assistance is to be provided to individual or small groups of people for establishing small industry and business under the States Aid to Industries Acts.

(3) **Expansion of training facilities in those lines in which manpower shortage at present exists. Expanded training facilities are to be provided to meet these shortages.**

(4) Active encouragement to be given to the products of cottage and small-scale industries through the purchase of stores required by State Governments and public authorities.

(5) Municipal authorities, private educational institutions and voluntary organisations are to be assisted in establishing adult education centres in urban areas. In rural areas, opening of teacher schools should be encouraged.

(6) The National Extension Service should be established inasmuch as it is fundamental to the growth of rural economy in India and is expected to make immediate contribution towards the solution of the problem of educated unemployment.

(7) Development of road transport.

(8) Implementation of slum clearance schemes and programmes for the construction of houses for low-income groups in urban areas.

(9) Encouragement of private building activities.

(10) Planned assistance to refugee townships with a view to developing a sound economic basis for their continued existence.

(11) Encouragement of schemes for development of power sponsored by private capital

While recommending that as many of the educated persons as possible should be absorbed in the National Extension Service and in other activities, the Commission emphasised that the measures for opening out useful avenues prior to the university stage should be attached a very great importance, otherwise the problem of educated unemployment will be impossible of solution.

A Study Group was set up in September 1955 to formulate a programme specially designed to alleviate unemployment among the educated. The Group estimated that during the Second Plan period, 14.5 lakhs of educated persons were likely to be added to the labour force. It is estimated that about 2 million jobs, therefore, must be created during this period if educated unemployment has to be eradicated. As against this, it was estimated that about one million jobs were expected to be made available on account of the projects undertaken by the Central and State Governments during the Second Five-Year Plan period. Another 2.4 lakh jobs were expected to fall vacant on account of retirements in this period. Moreover, nearly 2 lakhs of persons were expected to be absorbed by the private sector. Thus, the problem of the educated unemployed was left substantially unchanged during the period of the Plan. Unemployment among the educated classes is showing an increase every year. The number of graduates and post-graduates on the live register of employment exchanges was 46,584 in 1960, 55,788 in 1961, 63,784 in 1962 and 67,330 in 1963.

Considering the magnitude and character of the problem, the Group has suggested certain fields as capable of providing employment opportunities for the educated. The following three categories of small industries have been considered appropriate for the purpose of providing employment opportunities for the educated:—

(1) manufacturing industries, viz., hand tools and small tools, sports goods, furniture, etc.;

(2) feeder industries like foundries, forge shops, tool-making shops, automobile shops, machinery parts, electroplating and galvanising shops, etc.; and

(3) servicing industries like repair shops for automobiles, bicycles and other machinery.

Co-operative goods transport offers another group of schemes for the absorption of the educated unemployed.

Setting up orientation camps which would overcome the disinclination on the part of the educated to undertake manual work has also been recommended. These camps would assist in discovering the vocational aptitudes of the youth. Improvement in the system of recruitment for government jobs, provision of hostels and the establishment of the University Employment Bureaux have been recommended to remove hardship to those who have to wait indefinitely for a job.

It should, however, be observed that the problem of the educated unemployment calls for long-term measures. Ad hoc measures designed to alleviate unemployment in the short run can hardly produce lasting results. It is necessary that the expansion of education and training facilities should be closely linked to the future requirements of the economy. The growth of educational facilities in directions which may further accentuate the problem should be avoided. There should be a systematic examination for openings for educated and trained persons in different categories and necessary information should be widely disseminated. Development of co-operative sector in the rural economy and of small-scale and medium industries will offer growing opportunities for absorbing educated persons in gainful and productive work.

Employment in the Five-Year Plans

First Five-Year Plan. India's population is increasing at the rate of 1.25%, i.e., by 4½ million persons annually. Of this, 40% are additional job seekers. Hence 9 million jobs had to be created for them during the First Five-Year Plan period. New schemes designed to relieve unemployment at a cost of between Rs. 150 and Rs. 175 crores were embodied in the First Five-Year Plan. The Plan was carefully scrutinised and extended with a view to increasing its employment potential. The Centre also decided to appoint a Man-power Committee both to find an effective remedy against unemployment and also to ensure the success-

ful execution of the present and future major river valley projects.

But according to Mr. C. D. Deshmukh, the total employment effect of the First Plan might have been only about 5 millions. Therefore, the employment position in 1956 was probably worse than when the First Plan began in 1951.

So far as the creation of employment opportunities is concerned the problem is threefold: (1) there are the existing unemployed in the urban and rural areas to be provided for; (2) it is also necessary to provide for the natural increase in the labour force which is estimated at about 2 million persons a year over the next five years; and (3) the under-employed in agricultural and household occupations in rural and urban areas should have increased work opportunities.

Experience during the First Plan has emphasized the need to view the employment situation not only in the aggregate, but also in its distinct urban and rural components. The total number of the unemployed registered with the Employment Exchanges continued to increase throughout the Plan-period from 337,000 at the end of March 1951 to 750,000 at the end of March 1959. The growth of employment opportunities in the Plan period tended on the whole to lag behind the increase in the labour force.

A review of the data relating to the First Plan shows that unemployment began to show a marked upward trend when the First Plan was half-way through. During the Plan period, the number on the live registers continued to increase from 3.37 lakhs in March 1951 to 5.22 lakhs in December 1953 and further to 7.05 lakhs in March 1956. The National Sample Survey, conducted at the instance of the Planning Commission, placed the magnitude of urban unemployment in 1954 at 2.24 millions. On the basis that only 25% of the unemployed register themselves with the exchanges, the magnitude of unemployment at present might be of the order of 2.8 millions. But allowing for frictional unemployment, the backlog of urban employment may be of the order of 2.5 millions. According to the Agricultural Labour Enquiry, the level of the rural unemployment in 1950-51 was of the order of 2.8 millions.

Second Five-Year Plan. The new entrants to the labour force during the next five years were estimated at 10 millions of whom 3.8 millions entrants were urban and 6.2 millions rural. Thus the aggregate magnitude of unemployment estimated during the Second Plan period (1956—61) was of the order of 15.3 millions—(new entrants 10 millions plus 2.5 millions existing unemployed urban and 2.8 millions existing unemployed rural). It has been estimated that unemployment is increasing at the rate of 20 to 24% every year on the live register of employment exchanges.

Even if it were possible to create employment opportunities of this order, the problem of under-employment would still re-

main unsolved. It is quite obvious that the Second Plan did hold out a promise of full employment. The additional employment likely to be generated by the Second Five-Year Plan on the basis of the data supplied by the State and Central Ministries, and on the basis of physical targets proposed by the private sector was estimated to be about 80 lakhs. The objective of the Second Five-Year Plan was to provide employment opportunities outside agriculture on an adequate scale and 10 million jobs had to be created for this purpose. Irrigation schemes, schemes of land reclamation by manual labour, schemes of Central Tractor Organisation, etc., put together were estimated to provide employment to about 1.6 million new entrants to the labour force in the rural areas. The village and small industries development programme was also expected to provide fuller employment opportunities. Studies made by the Planning Commission showed that the additional target of employment during the Second Plan was not likely to be much higher than in the First Plan, that is 4.5 or 5 millions. Thus the Plan made no significant contribution to the solution of unemployment problem, but the problem will continue to require good deal of attention. This is a problem rooted structurally in the economy.

Under the Second Plan, attempt was made at regional distribution of employment and development programmes were adopted for creating employment opportunities in special areas where chronic under-employment exists. Conditions in areas which are relatively poor in natural resources may in some cases necessitate the transfer of surplus labour to other areas.

Third Five-Year Plan. The Third Plan is expected to provide jobs for 14 million persons. But the number of new entrants to the labour force is estimated at 17 millions owing to sharp increase in population. The problem of unemployment will therefore still remain unsolved. According to a note prepared by the Ministry of Labour and Employment, employment in the public sector went up by 5.2% during the first year and by 7.2 per cent during the second year of the Third Plan. Fifty per cent of this increase occurred in various services consequent on the expansion of educational, health and medical facilities. Nearly 18 per cent of the additional employment in the public sector related to transport and communications and 15% to the manufacturing sector. Employment in the private sector increased by 2.4% during the first year and 5.6% during the second year of the Third Plan. A large part of the additional employment occurred in services, trade and commerce. During the first three years of the Plan, employment in the non-agricultural sectors increased by 19.5 lakhs. The non-agricultural unemployment rose from 28 lakhs at the beginning of the plan to 46 lakhs in March 1964. Employment in private sector establishments employing 25 or more persons increased from 50.4 lakhs in March 1961 to 56.0 lakhs in March, 1964—an increase of 11.1%. It is expected that 90% of the Third Plan target would be achieved so that the backlog of unemployment at the end of Third Plan would be heavier than at the end

of the Second Plan. The Minister of State for Planning informed the Lok Sabha on October 1, 1964 that the Third Plan would be creating additional employment of the order of 13 millions. Still the Fourth Plan was likely to start with an unemployment backlog of 12 millions.

Full Employment

To try to combat unemployment is a negative policy. We must do something positive. We must build up such an economic system that every able-bodied person is guaranteed a job by the State.

In recent years, a vigorous campaign has been carried on in various countries in favour of full employment programme. Contributions by Beveridge, Pigou, Roosevelt and Senator Murray in the formulation of such programmes are well known. According to Pigou, full employment means that all able-bodied people are employed, if they desire, to work at the prevailing rates of wages. To ensure full employment, the State must see that at no time is the number of jobs less than the number of unemployed persons.

Full employment can be maintained in the following ways:—

(a) The demand for labour should always be kept ahead of the supply of labour

(b) The demand for labour should be properly directed

(c) Both demand and supply of labour should be so organised that changes in the demand for labour synchronise over a not too distant period with changes in the supply of it, and vice versa There may still be a fractional unemployment during the period of adjustment.

State control will be essential in the economic sphere to provide employment for all Mobility of labour will have to be controlled through employment exchanges; location of industry will have to be controlled so that the available supply of labour can be properly distributed. Above all, the total expenditure, both public and private, must be kept at such a figure that the demand for goods and services is so great that it can be met only if the entire man-power of the community is employed.

Feasibility of Full Employment Programme in India

India contains one-fifth of the human race within its boundaries. To attempt to provide jobs for such a large mass of humanity is a stupendous task. Some would say that only those who have taken leave of their senses can advocate a full employment programme for the sub-continent.

The idea may look fantastic. But it need not be so. If the numbers for which we have to find jobs are vast, so are our resources. We have not yet started making full use of them. We have, for example, hardly developed 6% of our hydro-electric resources. There is nothing fixed about resources. The more they

are used, the more they will increase. Improvement in technique places increased resources at the disposal of the community.

During the War there was practically full employment. Why cannot we maintain that level of economic activity? If something can be achieved under the stress of war, there is no reason why we cannot retain it during peace. Public expenditure, Central and Provincial, amounted to Rs. 171 crores in 1938-39, but it rose to the giddy height of Rs. 1,198 crores in 1945-46. Who could think of such a phenomenal increase in our public expenditure before the war? The advocates of sound finance would shudder at the very idea. The fact is that finance is a mere camp-follower of economic and political policies. It has now been demonstrated that what is physically possible is financially possible too. Finance should be definitely subordinated to the achievement of the goal of full employment, and which aim could be more laudable?

To maintain full employment, employing people even on useless jobs has been advocated. Sir William Beveridge thinks it is even "better to employ people on digging holes and filling them up again, than not to employ them at all. Those who are taken into useless employment will, by what they earn and spend, give useful employment to all others". But there is tremendous amount of useful work that is waiting to be done in India in almost every sphere of life, e.g., public health, education, housing, transport, irrigation, electrification, modernization of agriculture and industry. Each of these can be developed to such an extent as to provide employment for the requisite number of men. The framers of the Bombay Plan admitted that, without providing full employment, the establishment of a decent standard of living would remain a pious hope.

Even when a full employment programme is in operation, there may still be a certain amount of unemployment due to the seasonal nature of certain industries or fluctuations in demand, or technological changes, or due to some inherent defects in the programme. But these gaps can easily be filled up by properly regulating the Government public works programme. The Government can so regulate its own economic activity as to remove the deficiencies of the full employment policy.

It must be admitted that the operation of the full employment policy will involve extension and strengthening of economic controls. There will be a stringent regimentation of all economic activity. There shall have to be control over prices, regulation of private investment, control over location of industry and over labour market, control over foreign trade, control over consumption as well as production. A properly co-ordinated and synchronised programme of public expenditure will have to be put through. But is there anything inherently impossible in all this?

True, there are difficulties, and some of them formidable indeed. Ours is a poor country and we lack administrative experience necessary to push through such schemes. We have hard-

ly taken the first steps in social insurance. Social security and full employment are yet a far cry. There is no provision of old age pensions or employment insurance. Ours is yet only a limited vision. We shall have to think of infinitely bigger things. And there is no reason why we cannot do it. Being a poor country, some would say, we cannot afford such luxuries. But this only means that full employment in our case will be established at a lower income level. The programme of full employment is certainly feasible in India.

Some Aspects of Full Employment Programme for India[1]

A full employment programme for India must embrace almost all important aspects of Indian economic life. It must touch international aspects of Indian economy, reconstruction of Indian agriculture and industry, co-ordination and expansion of transport, regulation of money market and foreign trade, reorientation of public finance, etc. We shall say a word about each of these aspects.

The world today has become one economic unit. No country can stand apart and isolated. The Great Depression and the global war have demonstrated the interdependence of the various countries of the world The economic solidarity and stability of the industrialised countries of Europe is closely interwoven with the economic prosperity and stability of the agricultural regions of Asia. As Sir William Beveridge puts it: "The new sign-post points clearly to the need for joint action by many nations to bring order into the production and marketing of primary commodities". The five economic experts commissioned by the Economic and Social Council of the United Nations in their report recommend that the countries of the world must jointly try to evolve a balanced and expanding world trade to ensure full employment. The International Bank for Reconstruction and Development should arrange for a large and stable international investment. The organisation of the I.M.F. should also be utilised for maintaining balanced and expanding world trade.

International movements of capital will be necessary for implementation of any integrated plan of economic development of an economically backward country like India. Capital and capital goods will have to come from abroad. It will be necessary for us to establish multilateral economic and financial relations with other countries. The structure of our foreign trade will thus be affected, which in its turn must affect internal economy.

If India is to realize her economic destiny and occupy its due place in the comity of world powers, she must raise an economic structure which will not only sustain the pressure of its growing population but also assist other nations in the realisation of their full employment aims. "She must integrate the

1. For a full study see T. N. Ramaswamy, *Full Employment in India*, 1946.

dynamics of her future economic evolution with the progressive nations of the world which is waking to an urgent utilisation of the global resources, natural as well as human".

Our agricultural system is characterised by a subsistence economy. This has to change, if we are to create full employment income structures and standards of living. This will necessitate heavy inter-occupational movements of labour. This movement has to be properly organised, for, according to Sir William Beveridge, the essential feature of a full employment policy is "not mobility of labour, but organised mobility".

At present our ever-increasing population is intensifying the pressure of population on land and is constantly threatening even the already poor standard of living in the rural areas. There is enforced idleness for a number of months in the year among the agricultural population. The burden of indebtedness is keeping the peasant down. These handicaps must be removed. Agricultural production will have to be properly planned. In short, there must be a radical reconstruction of our rural economy and it must be integrated with urban or industrial economy to fit in with the implementation of a full employment programme to absorb not only the population emerging into employable age-groups but also other factors of production.[1]

The present Indian industrial structure suffers from certain technical and economic rigidities and is incompetent to sustain the full employment programme. It is not strong enough "even to stabilise the contemporary rickety labour market in the urban areas." The industrial system of a full employment pattern will have to be a co-ordinated part of the general economic development of the country.

The following programme of industrial reconstruction has been put forward[2]: (a) More rational localisation of the industrial structure; (b) decentralisation and diversification of industrial units; (c) controlled industrial location calculated to stabilise labour markets of the country; (d) co-ordination of industrial evolution with the general economic evolution in the region; (e) controlled evolution of regional markets for industrial products; (f) management of wage fluctuations to maintain full employment standards of living; (g) controlled regulation of inter-regional movement of industrial products; (h) controlled evolution of the industrial structure with regard to technical progress in the process of manufacture; (i) regulated reconstruction of the special industries of the region; (j) regulation of inter-occupational as well as inter-regional mobility of labour; (k) regulation of investment in regional industry; and (l) regulation of 'consumption' of industrial products by speculators and monopolists. Nothing short of a comprehensive programme of reconstruction of Indian industry can support a full employment programme.

1. *Ibid.*, p. 51.
2. *Ibid.*, pp. 143-4.

The aim of industrialisation is not merely to raise the standard of living but also to improve the cultural standard of our people. The drive and energy of the technical engineer will have to be matched by that of the social engineer.

As for our transport system, it is haphazard, unplanned and inadequate. Such a transport system is a great hindrance to agricultural prosperity, industrial progress and the general economic development of the country. For the implementation of a full employment programme, a co-ordinated system of transport is indispensable. The transport bottleneck, therefore, will have to be removed, if economic regeneration of the sub-continent has to be brought about.

A programme of general economic stabilisation must evolve a regulated inter-regional movement of goods, an organised inter-regional and inter-occupational mobility of labour and regulated production of goods, industrial and agricultural, as well as regulated consumption of producer and consumer goods. In all this, transport system has to play an important role.

When the full employment pattern of society has been established, the transport system must protect it and prevent it from disintegrating. It must prevent abnormal economic fluctuations which might unsettle the economic structure providing full employment. From this point of view the following adjustments will be necessary in the transport system[1]: (a) The transport system will have to be decentralised and regionalised with the minimum of contact with the transport system which would have to concern itself only with the traffic essential to maintain inter-regional and international economic relationship; (b) the transport system must be elevated to the pedestal of a public utility service, and outlay on transport should be in the nature of communal outlay. This principle should cover the road transport too; (c) effective co-ordination among different transport systems like railways, automobile and water transport to eliminate any competition among them; (d) nationalisation of the transport systems to reduce any competition either in routing or in freight, and to maintain an integrated pattern of investment structure to implement full employment schemes of stabilisation—regional as well as national; (e) regionalised regulation of traffic—goods as well as labour—to maintain the requisite pattern of price formation in agriculture and industry; (f) adequate readjustments of 'expense ratios' in transport services to the exigencies of the reconstituted volume and velocity of traffic.

The transport system must be highly flexible so that it can effectively cope with normal traffic arising out of the implementation of the full employment programme. For this purpose, reliance cannot be placed on railways alone. A co-ordinated and elaborate system of road transport will also be essential. The

1. *Ibid.*, p. 198.

transport system, in short, must form an integral part of the general economic stabilisation programme.

A properly regulated money market is also an essential part of the full employment programme. A full employment pattern of economic structure must eliminate cyclical fluctuations in trade and industry. Frequent occurrences of booms and depressions are sure to de-stabilise the new economic system which is calculated to maintain full employment income structure. Stabilisation of the price level is very essential. In the new dispensation, therefore, it will be necessary to regulate the deposit-creating capacity of the banking institutions and to control the forces influencing the purchasing power of the community.

The Indian money market lacks the necessary flexibility. Its various constituents are split up into several water-tight compartments so that they do not constitute one organic whole. It has been remarked that "the development of banking in India has been 'atomistic' rather than 'organic'." They are incapable of concerted action.

Certain adjustment will be essential in the structure of the Indian money market to fit it in the general pattern of full employment economic system. For a big country like India, one Central Bank cannot adequately meet the financial needs of the various regions. A certain amount of decentralisation of central banking, establishment of small independent banking units, regulation of banking functions in the country and control of the foreign exchange operations are some of the necessary adjustments in the Indian money market to enable it to sustain the full employment pressure.

The foreign trade cannot remain unaffected if a country launches a full employment programme. As Sir William Beveridge puts it, "International trade had fundamentally different aspects for a country with full employment." Reorientation of our foreign trade policy will be essential to make our full employment policy a success. It has been suggested that India will have to go through three phases of adjustments so far as her foreign trade is concerned[1]: (a) bilateralism to secure the maximum advantages of international capital movements to finance and implement her enormous programmes of economic development; (b) "bloc multilateralism" within the British Commonwealth of Nations to strengthen her structure of external economic relations and preserve her internal programmes of full employment from being contaminated by world forces of economic evolution; (c) participation in global multilateral trading as an integral unit of Sterling Bloc to preserve the stability of her economic system for the depradations of the stability of other currency blocs till the world effectively implements the evolution of an international currency devoid of the vested economic and financial interests of the Great Powers which today control the

1. *Ibid.*, p. 262.

institutions of the United Nations Organisation. The foreign trade must be complementary rather than competitive.

There are certain factors which impede the implementation of the full employment policy in India. The inflationary situation that exists today is not conducive to such a policy, because the deficit spending, which such a policy involves, will only accentuate inflation. The low rate of capital formation is another adverse factor. To borrow Keynesian terminology, the 'propensity to invest' is very low. There is a fall in private investment expenditure. But full employment policy requires large investment expenditure. The absence of data on employment, marginal propensity to consume and the multiplier, etc., makes the launching of the full employment policy a bit hazardous. The anti-inflationary policy of the State and the high level of indirect taxation are also not calculated to further full employment programme.

It may, however, be emphasized that in a country of low per capita income like India, it is more important to improve technical efficiency than to have full employment, because by itself full employment cannot increase national income.

Role of the State in Full Employment

In the early thirties the world witnessed the paradox of poverty in the midst of plenty: a spectacle of over-production on the one hand and starving humanity on the other. These chaotic conditions were created by the maladjustment between production and consumption and the divergence between the rate of capital creation and the pace of investment. Technological progress seemed to have outrun the consumption propensity of the people. "They only escape from the sinister spiral of economic 'progress' where technical progress incessantly creates enormous divergence between investment opportunity and capital creation and distorts the composition of consumption propensity of the population leading to the mad stampede for resources and markets, ... lies in a comprehensive co-ordination of all economic forces." What is needed is the synthesization of the dynamics of investment into a co-ordinated pattern of economic development to liquidate the 'paradox of plenty' and adequately implement the full employment of man-power and material resources without jeopardising the main-springs of technical advances.

Now who can bring about this 'comprehensive co-ordination' or synthesization? We can only look to the Government to do it. A system of extensive economic control will have to be built up, a system which can be efficiently administered not like the one which we witnessed during the war and post-war years. Unplanned and unintegrated economic development has created a large volume of undisguised unemployment. While far-reaching agrarian reconstruction has to be effected, when evils of unplanned industrial evolution have to be eliminated, and co-ordinated industrial development is to be brought about, when the transport system needs overhauling and when trade, internal and external,

has to be canalised, State regulation becomes inevitable. Full employment policy cannot be executed without radical reconstruction of the entire economy of the country. Economic administration of this order can only be efficiently carried out by the Government machinery. A suitable State machinery for creating full employment pattern of economic society will have to be devised and perfected.

It will be necessary to set up self-sufficient economic zones. Inter-zonal economic relations of a complementary nature will have to be fostered. All this would mean enormous structural changes in our economic system necessitating corresponding changes in the administrative machinery of Government.

To carry out all-comprehensive economic policy for the Indian sub-continent, a Supreme Economic Council of economic experts will have to be created. The Supreme Council will have to be clothed with executive powers effectivly to co-ordinate the various economic programmes. It should have the powers of superintendence, direction and control of the economic system. For this purpose, it should be free to create suitable subordinate instruments of economic policy. To prevent any friction and to convert it into a suitable spring of the necessary authority, the members of the Union Cabinet should have seats on it ex-officio. In that case, it will be easy to carry out its decisions promptly. The Supreme Council is to be a sort of 'Brains Trust'. In order to make it an embodiment of mature wisdom and experience of various aspects of economic life in the country, experts, both official and non-official, in banking, transport, agriculture, trade and industry must be given due place on the Council. For each of these branches of economic development, separate boards may be associated with the Supreme Council, e.g., a Board of Transport, a Board of Industry, a Board of Price Co-ordination, etc.

The main functions of the Supreme Economic Council should be the co-ordination of inter-regional trade, transport, movements of labour, prices, distribution of power resources between the regions, etc. For each region or zone there should be set up a zonal or regional Economic Council on the lines of the Supreme Economic Council, having associated with it a separate Board for each branch of economic development. The present States may have to be split up into smaller and convenient economic zones. These zonal councils will have the important function to develop the resources of the zone, human and material, to the limit necessary to maintain the full employment economic structure and interweave various aspects of economic evolution in the zone as an integrated whole. To some extent these functions of the Supreme Economic Council are being performed by the Planning Commission in India.

In short, the Government will have to undertake the responsibility of maintaining an economic system in the country which will provide full employment. For this purpose, it must come forward with its own public works programme so that any defici-

ency of private enterprise is made up. In other words, it will be the responsibility of the Government to maintain that level of total outlay which ensures jobs for all those who seek them. Only the Government can command the resources and exercise the requisite authority to translate into practice any full employment programme that may be conceived for India. A full employment policy in India must aim at "preserving a progressive balance between economic development and the volume of population to maintain a progressive standard of living" and must protect "the economic system from the impact of economic instabilities which may originate abroad". This is not an easy task and all the resources of the Government will have to be mobilised to accomplish it. A complete transformation of Central and State budgets may be necessary when the full employment programme is launched and executed. Thus the Government role will be an all-important role in providing and maintaining employment in India.

CHAPTER XXXIV

National Income

Raising national income is the important goal of our economic activity. Economic welfare of a country depends upon what goods and services are made available for the consumption of its people. The economic welfare of a community can best be measured by its national income. Other things being equal, economic welfare is greater if national income is greater. National income figures give us an idea as to the standard of living of a community. The national income figures are further useful in helping us to assess the pace of economic development of a country. If they do not measure progress precisely at least they will show us the trends. The study of national income statistics is also useful in diagnosing the economic ills of a country and suggesting remedies. The rate of saving and investment is ultimately dependent on the national income. Hence a study of national income of a country is of utmost importance.

What is National Income?

Thus the wealth of a nation is the sum-total of the possession of the people,—only such possession as can be appropriated and exchanged. **The income that flows from this fund of total possessions is known as national income or national dividend.**

There are different opinions regarding the items that should be included in it. For instance, the service rendered by a mother or housewife is very valuable and yields satisfaction which can often be measured in money, but is excluded from the national income. The same service rendered by a housemaid is considered as income. Similarly, as Prof. Pigou says, houses and furniture enter into national income if put out on rent, but not if they are given as free gift, even though the utility rendered by them is the same. There are some economists who believe that the services of public servants should be excluded from the

national income. Others hold that only income without any service in return, such as old age pensions, should be excluded.

Mr. Colin Clark, a British ethnological authority, defines national income as follows:—

"The national income for any period consists of the money value of the goods and services becoming available for consumption during that period, reckoned at their current selling value, plus additions to capital reckoned at the prices actually paid for the new capital goods, minus depreciation and obsolescence of existing capital goods, and adding the net accretion of, or deducting the net drawings upon stocks, also reckoned at current prices. Services provided at non-profit-making basis by the State and local authorities (e.g., postal services and municipal tramway services) are included on the basis of charges made. Where taxation is levied upon particular commodities and services, such as the customs and excise duties on commodities or the entertainment tax, such taxes are not included in the selling value."[1]

According to Dr. V. K. R. V. Rao, an Indian authority on the subject, national income may be defined as the money value of the flow of commodities and services, excluding imports becoming available for sale (or capable of being sold) within the period, the value being reckoned at current prices minus the sum of the following items: (1) the money value of any diminution in stocks that may have taken place during the period; (2) the money value of the flow of goods and services used up in the course of production; (3) the money value of the flow of goods and services used to maintain intact existing capital equipment (value being reckoned at current prices); (4) receipts of the State from indirect taxation; (5) favourable balance of trade including transactions in treasure; (6) net increase in the country's foreign indebtedness or the decrease in the holdings of balances and securities abroad whether by individuals or the Government of the country."[2]

National income is the aggregate factor income (i.e., earning of labour and property) which arises from the current production of goods and services by the nation's economy. The nation's economy refers to the factors of production, i.e., labour and property, supplied by the normal residents of the national territory.

Income is deemed to originate in the territory on which the income generating economic activity takes place. The income originating on the territory of a country is described as its net geographical or domestic product. Since a part of the factor income originating on the territory of a given country may accrue to foreigners as payment for the services of factors sup-

1. Colin Clark: *The National Income*, pp. 1-2.
2. Dr. V. K. R. V. Rao: *National Income of British India*.

plied by them, and a part of the factor income originating on foreign territories may likewise accrue to the normal residents of the given country, national income is different from net domestic product. National income is equal to net domestic product plus net income from abroad, the latter being the excess of the factor income originating abroad but accruing to the normal residents of the country over the factor income originating in the given country but accruing to the normal residents of the rest of the world.

Methods Calculating the National Income

Three methods are usually advocated to calculate this income:—

(a) **The Income Method.** This is based on income-tax statistics. The income-tax figures are supplemented by figures of average earnings of various groups of labourers. Such a method will be more useful in a country where the number of income-tax payers is large. It can be used in India if it is helped by ad hoc inquiries into the income of labourers, petty shopkeepers and other groups of workers, whose incomes are not liable to income-tax.

(b) **The Census of Production Method or the Inventory Method.** It takes into consideration the total goods and services consumed in a year at market prices. This method needs an accurate census of production as well as a wage census. In India no complete census of production has ever been taken. The Government, however, publishes estimates of the production of principal agricultural commodities which means that the income of almost every two persons out of three is taken into calculation.[1] Complete statistics of the output of mines and forests are also published. Figures of production of some important industries are also available.[2] Besides, some figures about milk and milk products are available.

(c) **A Combination of the Income and Inventory Methods.** The two methods have been combined by Dr. Rao with fair success in India. He has used Government estimates of agricultural produce, tabulated figures of mineral, industrial and forest produce, available data on milk and milk products, income-tax statistics as well as figures of incomes of junior Government servants and of those industrial workers whose wages are published regularly. He has supplemented these by ad hoc inquiries in other directions.

Estimates of National Income of India

A number of estimates have been made from time to time to ascertain the national income of India. The earliest of these was made by Dr. Naoroji relating to 1867-70. The various estimates

1. *Agricultural Situation in India*, a monthly journal.
2. *Statistical Abstract*, a monthly.

of per capita income in British India before the Partition are as below:—

No.	Name of Author		Years for which estimate is made	Income in Rs.	As.	P.
1.	Dadabhai Naoroji	...	1867-70	20	0	0
2.	Lord Cromer and Barbour	...	1882	27	0	0
3.	Digby	...	1898-99	17	8	5
4.	Lord Curzon	...	1900	30	0	0
5.	Digby	...	1901	18	8	11
6.	F.C. Atkinson	...	1875	30	8	0
	" "		1895	39	8	0
7.	Wadia and Joshi	...	1913-14	44	5	6
8.	Shah and Khambata	...	1900-14 (Pre-war)[1]	36	0	0
9.	" " "	...	War and post-War	38	0	0
10.	Findlay Shirras	...	1921	107	0	0
11.	" "	...	1922	116	0	0
12.	Simon Commission	...	1929	116	0	0
13.	Dr. Rao	...	1925-29	76	0	0
				51	0	0[2]
14.	" "	...	1931-32	166	0	0[3]
				65	0	0[4]
15.	Sir James Grigg	...	1937-38	56	0	0[5]
16.	"Student" in *Commerce*	...	1938-39	66	0	0
17.	" " "	...	1942-43	124	0	0

It is seen that there are big variations in the above estimates. One reason is the changes in price. For instance, Rs. 45 in 1913-14 would be equal to Rs. 80 in 1921-22, if allowance were made for the rise in prices. Besides, **the area covered by different estimates is not always the same. Another important fact** to note is **the difference of treatment by different investigators.** One finds that investigators with a nationalist bent of mind usually arrived at lower figures as compared with officials; the viewpoint of the former was that British rule brought no prosperity to India while the latter think differently. Earlier investigations were thus coloured by political prejudices. **In addition the different estimates did not always include the same item.** The basis of calculation was almost always different. **Nor were the statistics wholly correct.** Often they were patchy and in some cases lacking in important aspects.

It may be mentioned that later estimates are more scientific and Dr. Rao's valuation is perhaps the most reliable. He selected the year 1931-32 for his estimates. The income and inventory methods were judicially mixed and supplemented by ad hoc in-

1. As adjusted by Dr. Rao according to the changes in level of prices.
2. Rural.
3. Urban.
4. India, Dr. Rao allows a margin of + 6 per cent.
5. Budget speech, 1938.

quiries. Dr. Rao calculated that per capita income in India was Rs. 65. He then concluded that corresponding to an income of Rs. 65 per capita for India, as a whole, the per capita income in rural areas was Rs. 51 and urban areas Rs. 166.

It is a matter of great satisfaction that for the first time we have now authoritative estimates of the national income of India. These have been prepared by the National Income Unit under the guidance of the National Income Committee. The National Income Committee employed a combination of the **'product method'** and the **'income method'**. First the total working force (self-supporting persons **plus** earning dependants) and its occupational distribution was estimated. The product method was then applied to as many sectors as possible. For the remaining sectors the income method was applied. In a few cases, e.g., small enterprises, net income produced was estimated by both the methods, but the results obtained by the income method were considered more satisfactory and hence adopted.

According to the preliminary estimates, national income, i.e., net national output at factor cost, at 1948-49 prices, for 1962-63 was placed at Rs. 13,370 crores as compared to Rs. 13,060 crores (revised) for 1961-62. This modest rise of 2.4% was in contrast with a high increase of 7.5% in 1960-61. The rise of 2.6% in 1961-62 and 2.4% in 1962-63 was noticeably smaller than the average annual rate of growth of 3.4% in the First Plan and 4.1% in the Second Plan period.

According to 'quick' estimates prepared by the Central Statistical Organisation, the national income in real terms is estimated to have reached a rise of 4.5% in 1963-64 over 1962-63 as against 2.4% and 2.6% in 1962-63 and 1961-62 respectively over the preceding year. The relatively low increase in 1962-63, as in the previous year, was due to sectors other than agriculture. In 1964-65 the rate of growth is provisionally estimated at 6 to 7%. The per capita income at 1948-49 prices worked out at Rs. 294.7 in 1962-63. The per capita national income recorded a rise of 8.4% over the Second Plan period. During the First Plan period, national income had risen by 18.4% and the per capita income by 8.2%. Expressed at current prices, national income in 1962-63 worked out at Rs. 15,400 crores and the per capita income at Rs. 339.4.

Among the Indian States, Delhi has the highest per capita income—Rs. 968.58. Delhi is followed by Bengal with Rs. 436.69, Punjab Rs. 358.14, Maharashtra Rs. 335.44 and Madras Rs. 263.28.

Less output of foodgrains and smaller increase under mining and factory establishments resulted in such poor performance in the first year of the Third Plan. It is depressing indeed to find that our rate of industrial growth (3% a year) compares unfavourably with the 5% or more achieved by 25 of the 31 underdeveloped countries included in the U.N. World Economic Survey 1961.

The position in respect of national income and income per capita over the last few years may be summed up as follows:

Year	Net national output (in Rs. '00 crores)		Per capita net output (in Rs.) Based on 1941 and 1951 population census figures	
	At current prices	At 1948-49 prices	At current prices	At 1948-49 prices
1	2	3	4	5
1951-52	99·7	91·1	274·2	250·3
1955-56	99·8	104·8	255·0	267·8
1956-57	113·1	110·0	283·4	275·6
1957-58	113·9	108 9	279·6	267·3
1958-59	126 0	116·5	303 0	280·1
1959-60	129·5	118·6	304·7	279·2
1960-61	141·6	127·5	327 3	293·7
1961-62	146 3	130·2	329 7	293·4
1962 63	154·0	133·7	339 4	294·7

The following table gives the contribution made to the national income by the different sectors of the Indian economy in 1950-51, 1955-56 and two recent years.

National Income by Industrial Origin
(in Rs. 100 crores)

		1950-51	1955-56	1960-61	1962-63
A. AT CURRENT PRICES					
Agriculture :					
Agriculture, animal husbandry and ancillary activities		47·8	43·9	66·8	67·8
Forestry		0·7	0·7	1·1	1·2
Fishery		0·4	0·6	1·0	0·7
Total of agriculture	4250	48·9	45·2	68·9	69·7
Mining, manufacturing and small enterprises:					
Mining		0·7	1·0	1·6	2·0
Factory establishments		5·5	7·8	13·4	16·9
Small enterprises		9·1	9·7	11·2	12·1
Total of mining, manufacturing and small enterprises	1480	15·3	18·5	26·0	31·0

		1950-51	1955-56	1960-61	1962-63
Commerce, transport and communications :					
Communication (post, telegraph and telephone)		0·4	0·5	0·6	0·8
Railways		1·8	2·5	3·6	4·3
Organised banking and insurance		0·7	0·9	1·6	2·1
Other commerce and transport		14·0	14·9	17·6	19·0
Total of commerce, transport and communication	1600	16·9	18.8	23·4	26·2
Other Serivces :					
Professions and liberal arts		4·7	5·5	7·4	8·4
Government services (administration)		4·3	5·7	9·0	11·7
Domestic service		1·3	1·4	1·9	2·2
house property		4·1	4·6	5·3	5·6
Total of other services	13 0	14·1	17·3	23·6	27·9
Net domestic product at factor cost	8670	95·5	9·98	141·9	154·8
Net earned income from abroad	20	– 0·2	0·0	—0·5	—0·8
Net National output at factor cost National Income	8650	95·3	99·8	141·4	154·0

B. AT 1948-49 PRICES

	1950-51	1955-56	1960-61	1962-63
1. Agriculture, animal husbandry and ancillary activities	43·4	50·2	59·0	58·0
2. Mining, manufacturing and small enterprises	14·8	17·6	21·1	23·0
3. Commerce, Transport and Communications	16·6	19·7	24·6	26·4
4. Other Services	13·9	17·3	23·1	27·0
5. Net domestic product at factor cost	88·7	104·8	127·8	13[illegible]·5
6. Net earned income from abroad	-0·2	0·0	—0·5	—0·8
7. Net national output at factor cost—National Income	88·5	104·8	127·3	133·7

For 1962-63, the national income at current prices has been estimated provisionally at Rs. 15,400 crores and at 1948-49 prices at Rs. 13,370 crores and per capita income respectively at Rs. 339.4 and Rs. 294.7. The national income went up by 2.4% over the previous year as against a target of 6% a year. Less output of foodgrains and smaller increase under mining and factory establishments have resulted in such poor performance in the first year of the Third Plan. The national income in real terms which had increased at the rate of 2.5% during the first two years of the Third Plan showed a larger increase of 4.5% during 1963-64.

Difficulties

The estimation of national income in any country is a very difficult task. But in India the difficulties are particularly great. The chief among them are as follows:

(i) The most serious handicap is the **inadequacy**, non-availability and **unreliability** of statistics. Correct statistical information regarding agriculture and allied occupations is not available. There is also no information available regarding consumption expenditure and savings of either rural or urban population. Besides, owing to regional diversities statistics available about one region cannot be used for another region.

(ii) Illiteracy of the people and the absence of the practice of keeping account is the next. In western countries, economic statistics are collected directly from individuals and enterprises. This is obviously not possible in India. Moreover, Indian people are by tradition suspicious and do not co-operate in the collection of data.

Besides most of the Indian producers are not capable of knowing the exact quantity and the value of their products. Thus, "an assessment of output, produced by self-employed agriculturists, small producers and owners of household enterprises in the unorganised sector, would require an element of guess work".

(iii) For the most part, production, both agricultural and industrial, is unorganised and scattered. Thus, it does not admit of easy calculation. The Indian agricultural sector is dominated by subsistence farming and is a semi-stagnant sector and has, therefore, small significance in estimating national income of a developing economy. This also applies to household crafts.

(iv) A major part of the Indian economy consists of household enterprises which perform simultaneously functions belonging to different occupational categories. Thus the usual industrial classification cannot be observed.

(v) Another difficulty is the absence of a uniform basis which could be used for evaluating commodities and services in terms of money. This is made more difficult by the fact that a considerable portion of the output in India does not come into the market at all; either it is consumed by the producers themselves or is bartered for other commodities and services. The large, unorganised and non-monetised factor of the Indian economy presents the greatest difficulty in national income calculations.

(vi) Lastly, there is the universal academic difficulty of reducing the numerous economic activities of the millions of people to a common measurable denominator. For example, how to add together the services of a street sweeper and those of the Prime Minister.

But these difficulties should not be allowed to act as deterrents to the calculation of national income.

Important Features of National Income Estimates of India

We shall now study the important features brought out by these estimates.

(1) In the first place, it is obvious that the **per capita income is very small indeed.** Calculated in terms of U.S. dollars, it comes to $55.7. When compared with the per capita income of $1,453 of U.S.A., $870 of Canada, $856 of New Zealand and even with countries like Iraq and Iran ($85 each), our poverty becomes quite obvious. In fact, it only confirms in figures the existence of extreme want and the sub-human standard of our people.

(2) **Very little real improvement in the standard of living of the people.** Apparently, the present per capita figure shows a great advance over Rs. 65 of 1931-32 (according to Dr. Rao's estimate), but this is simply an illusion. It is not the money-income that matters, but the real income calculated in terms of goods and services. The wholesale price index for 1950-51 had risen to 409.7 (base year August 1939), in which year prices were even higher than in 1931-32. Thus there was no real improvement at all. However, since 1950-51, there has been a perceptible and steady improvement, the per capita income at 1948-49 prices, rising from Rs. 246.3 in 1950-51 to Rs. 292.5 in 1960-61.

(3) Then, this per capita income does not tell the whole story. This is after all an average. In reality, however, the national income is very unevenly distributed. A small minority of big industrialists, capitalists and zamindars swallow up a substantial portion of the national income. There is no reason to doubt the general proportions as brought by Messrs. Shah and Khambata that more than 33% of the country's income is enjoyed by the richer class who form only 5% of the total population and another 1/3rd is enjoyed by the 1/3rd of the population comprising of middle classes. The remaining 1/3rd is left for over 60% of the people to divide among themselves.

(4) **The unbalanced character of the country's economy** is another important feature. Agriculture (including animal husbandry) contributes nearly half of the total national income. Commerce, transport and communications all put together account for a mere 17.8% of the total. Manufactures, small industrial enterprises and mining account for 18.4%. Compare this with the position in the U.K., where, in 1949, industrial production accounted for 53% of the total national output. This convincingly brings out the lop-sided character of our economy.

(5) **Predominance of small-scale enterprise.** The contribution of small enterprises in the economy to national income at 66% is 6 times as great as the contribution of large enterprises (10.7%).[1]

1. Final Report of the National Income Committee, 1954, p. 107.

(6) **Predominance of food in national consumption.** An analysis of the consumer expenditure in relation to national income indicates that food accounts for a consumer expenditure of Rs. 4,600 crores or nearly 53% of the total national income.[1] This proportion of 53% is for the country as a whole. The report of the National Sample Survey published in January 1953 revealed that in rural areas food accounted for no less than 2/3rds of the total expenditure (one-tenth on cloth and the rest on all other items). This high proportion of food expenditure shows the poverty of the people and the underdeveloped character of the country's economy.

(7) **Large inequalities in the per person output in the various sectors of the economy.** Another notable feature revealed by the national income estimates is that the net output per employed person in agriculture is markedly lower than that in most other sectors of the economy. In agriculture it came to only Rs. 500 in 1950-51 as against Rs. 1,700 in factory establishments, Rs. 1,600 in railways and communications, Rs. 1,500 in banking, commerce and transport, Rs. 1,100 in government services, Rs. 800 in small industrial enterprises and Rs. 400 in domestic service. This reflects the excessive pressure of population on land and the primitve technique of our farming.

Indian Poverty—its Causes and Cure

The poverty of the Indian masses is a by-word. The per capita income in the country is distressingly low. When compared with that of the countries of North America and Europe, it gives a rude shock. But must we go after statistics to gain an idea of our poverty when it is writ large on the faces of the country's masses? Our teeming millions do not live, they merely exist, and that existence too is most wretched. Millions among them cannot afford even two square meals a day and, therefore, death by starvation is not unknown. They are not only ill-fed, but are also ill-clothed and ill-housed.

On the other hand, it is an equally well-known fact that nature has endowed India with rich natural resources, second only to those of the U.S.A. and the U.S.S.R. Is it not then a veritable enigma that the Indian people should be so poor? Verily, this is a paradox, but its explanation is not at all difficult. A combination of economic, social and political factors is responsible for this sorry state of affairs.

Economic Causes

(i) The most striking economic cause is the **excessive dependence of the population on agriculture.** According to the National Income Committee's final report published in February 1954, 72% of the working population is engaged in agriculture as against a mere 11% in industries, 6% in trade, 1.5% in transport.

1. Report of the National Income Committee, 1951, p. 27.

To make matters worse, Indian agriculture is most inefficient and is characterised by serious insecurity of crops. While its low productivity is mainly the result of small and scattered holdings, primitive technique and defective land tenure system, the insecurity is the consequence of the dependence of agriculture on the capricious rainfall. Thus, when agriculture, which is the source of livelihood for the overwhelming majority of the people, is in such a precarious position, the general poverty is easily understandable.

(ii) **Lack of industrial development** has kept down the national income. Not that the requisites of industrial advance have been seriously lacking but owing to the domination of foreign capital, which could prosper only if Indian enterprises did not rise to challenge it, absence of basic industries and technical training facilities, the inadequacy of transport and banking services, shyness of indigenous capital, and such other adverse factors, the potentialities of industrial advance have not been availed of.

(iii) **Very inadequate development of transport and banking facilities** of the various necessary types so essential for the growth of a prosperous and balanced economic system has been another serious handicap.

(iv) **The rapid growth of the population** has been nullifying whatever little improvement in production has been achieved. The existence of the food problem is a very convincing evidence of the lag between population and production.

Social Causes

The old and out-of-date customs, superstitions and institutions also deserve a fair share of the blame. The **caste system**, for example, has been exercising a very adverse influence on the economic progress of the country. The **fatalistic and other worldly outlook** of the people is largely responsible for the attitude of indifference on the part of the people towards their own betterment. Further, the **universal illiteracy and conservatism** have proved great hindrances to any economic advance that the people may otherwise have achieved.

Political Causes

But for the adverse political causes, the above economic and social causes could have been got over, or, at any rate, would have been considerably toned down.

The **long foreign rule** utterly demoralised the people. The foreign government obviously was interested in prolonging its hold. It, therefore, followed, for a very long time, a policy of utter indifference towards economic development, particularly in the matter of industrialization of the country. For selfish reasons, it wanted the country to remain a supplier of raw materials and to serve as a market for the manufactured goods of its own

nationals and to maintain the dependent status of the country politically as well as economically. In matters such as currency and exchange, tariffs, stores purchase, which were so vital to the economic progress of the country, the British followed a policy calculated to serve her own interests rather than advancing those of this country.

Likewise, their policy towards the social problems was that of **'masterly inactivity'**. Social causes, as we have seen, were thus allowed to work havoc.

In the light of the above analysis, the grinding poverty in India is not at all surprising.

Remedies

The appalling poverty of the Indian people cannot be remedied merely by the tingering here and tingering there. Nothing short of a comprehensive economic planning of the country can secure substantial results. India is a country with a developing economy, rich in natural resources and man-power. Her resources, human as well as material, are capable of fuller exploitation and more intensive utilisation. The Indian economy is still predominantly agricultural, nearly half of the country's national income being derived from agriculture and allied activities. There is urgent necessity of accelerating industrial development and at the same time of increasing productivity of agriculture.

Are We getting Richer?

The table on pp. 630-31 shows that the national income of India has increased from Rs. 8,650 crores in 1948-49 to Rs. 9,650 crores in 1955-56 which represents a rise of 11.5%. It rose to Rs. 12,860 crores in 1960-61. The increase in per capita income rsepectively has been from Rs. 246.9 to Rs. 252 and to Rs. 327 in 1960-61. The increase is less than proportionate to the increase in total income. This is due to the increase in population. The population of India in 1948-49 was 350.38 million and increased to 373.37 million during the five years and 436 million in 1961. This indicates an increased pressure of population on the resources of the country.

During the First Plan period, the national income increased from Rs. 10,240 crores in 1950-51 to Rs. 12,130 crores in 1955-56 and to Rs. 14,500 crores in 1960-61 (at 1960-61 prices). The increase during First Plan was 18% as against a target of 12%. Considering the post-partition difficulties and the high inflation under which the country was groaning, the achievement is no doubt creditable. The tempo of economic activities during the Second Plan period was much faster and the national income was therefore up by 20% though the target was 25%.

If the programmes included in the Third Plan are completed in time, the national income (at 1960-61 prices) will go up by about 34%. The net output of agriculture and allied sectors will

go up by 25%, of mining and factory establishments by about 82% and of other sectors by about 32%. The overall target is to secure an increase of 30% in the national income over the period of the Third Plan.

Conclusion. In spite of this increase in income, it has to be admitted **that the poverty of the people of India is very great**, more specially when we compare the per capita income with other countries. For example, the average income of an American is estimated to be 31 times that of an Indian and of an Englishman 14 times more. Comparing the increase in income and increase in population one finds that the trend seems to be for population to increase at only slightly lower rates than the output of goods. The per capita income when calculated in real terms showed very little change during the period 1949 to 1951 but started improving as a result of the efforts initiated with the First-Year Plan. The table below gives an idea of recent income per capita in India and some other countries.

National Income in some countries

Country	*Year*	*Population in millions*	*National Income in millions*		*In Terms of Rupees crores*	*Per capita income Rs.*
Australia	1953	8·81	£(A)	3,714	3,929	4,460
Burma	1953	10·04	Kyats	3,928	393	206
Canada	1954	15·19	$	18,774	9,199	6,056
Ceylon	1953	8·15	Rs.	4,408	441	541
France	1954	42 73	Frs.	11,498,000	15,750	3,686
Japan	1954	88 20	Yen	6,148,000	8,129	922
New Zealand	1954	2·09	£(N Z.)	802	1,058	5,062
Pakistan	1953-54	78·81	Rs.	19,310	1,931	245
Switzerland	1954	4·92	Sw. Fr.	21,900	2,407	4,812
U.K.	1954	51·07	£	15,543	20,720	4,057
U.S.A.	1954	162·41	$	299.700	142,657	8,784
India	1953-54	373 37	Rs.	106,000	10,600	284

It is seen that the income per capita in India, although improving, is only little better than in Burma and Pakistan and is much lower than in any other country. We have to make up a great leeway indeed. More and more production per unit of man-material should be our slogan.

Distribution of incomes among various classes, whether savers or spenders, gives a clue to the future pattern of investments. If, for instance, the greatest part of income is with hereditary **Zamindars**, there will be no investment in industry. If, on the other hand, large income accrues to industrialists, they are likely to expand their business. In India it is alleged that the distribution of incomes is not such as would be conducive to further development. It is said that the number of income-tax assessees in the whole of India is very small and those who are liable to

pay income-tax over Rs. 2 lakhs of annual income is very small. Besides, the rate of taxation is quite high. For instance, a person with Rs. 1 lakh of income is left with only Rs. 48,000 while a person with an income of Rs. 2 lakhs income is left with Rs. 54,000 only and a person with an income of Rs. 5 lakhs is left with Rs. 60,000, and so on. Thus the conditions for saving are not favourable and, under the present rates of income-tax, no one can become rich except by dodging taxes or by black-marketing of goods.

The first remedy which suggests itself of the cure of these faults is increased production in all directions and mobilisation of incômes of all classes for investment in remunerative channels. If all the wealth of the wealthy people were forcibly taken away and redistributed amongst all the poor in the country it would not provide even one meal for 46 crores of people. **So the result is of distribution of income as well as lack of production.** Of course, distribution of income should be corrected as far as possible. At the same time, the growth in population should be limited within reasonable levels. Otherwise if planned production will bring about some increase in income, it is bound to be neutralised by the growth of population and consequent inflated prices.

The two urgent needs in India today are then—

(a) a greater agricultural and industrial production, and

(b) a fair and equitable distribution of income.

CHAPTER XXXV

First Decade of Planning and Development

(1950-51 to 1960-61)

In the preceding chapter, we saw how ludicrously low our national income is and what a wide gulf separates India from other advanced countries of the world in this respect. Raising national income is an all-important objective before us. Only economic planning can help us to achieve it.

Laissez-faire ruled the minds of people and governed the economic policies of nations for a long time. It was believed that free play of self-interest was conducive to maximum individual benefit. It was argued that the consumer would be benefited by lower costs and the producer by higher gains. In recent times, however, laissez-faire has lost its hold and there is a swing back to State interference. Thus, today, the issue is not between a plan and no plan but only between degrees of planning. The idea of planning and a planned economy is accepted now in varying degrees by almost every one.

The per capita income of India is extremely low. There is an ever present menace of rapidly growing population due to ill-developed resources. The standard of living is very low and the vast majority of the people live in a state of appalling poverty. The low per capita income of India is due to the wrong development of Indian economy. Seventy per cent of the people are busy with agriculture and even then cannot produce enough food to feed all the people in the country. To raise standards of living India must produce more per acre. Large-scale industrialization is also essential. Only then can we have hopes of better housing and more clothing. The problem of unemployment and under-employment can be solved only by development of small-scale industries.

India suffers from (a) insufficiency of production, (b) instability of economic life, and (c) inequality of distribution. Insufficiency of production is due to the unemployment or under-

employment of factors of production. For her present stage of development, India is over-populated. Her resources may be vast, but they are not fully utilised. It is an undisputed fact that Indian economic life is unstable because her agriculture is at the mercy of uncertain rainfall. And it has been already said, that nearly 70% of the people of the country depend on agriculture. In these circumstances, the entire economy of the country must be unbalanced.

Besides, there are inequalities in the distribution of India's national income. Prof. K. T. Shah and Mr. Khambatta found in 1924 that if there were one hundred rupees to be distributed among 100 persons, roughly Rs. 33 went to the share of one member of the rich classes; Rs. 33 would go to 33 persons of the middle classes and the remaining thirty-three rupees to 66 members of the working classes. The situation is not much different even now.

Till the Partition no systematic policy had been followed in the development of India. The Government realised that the resources of India were limited. They had to be allocated according to the urgency of needs. The Planning Commission, under the Presidentship of Mr. Nehru, was called upon to formulate a plan for this purpose. In their work, the Commission was faced by a large number of difficulties. For instance, the price-level was continuously rising. The balance of payments position was becoming very serious. The food problem was most acute. The Partition of the country had created deficits in cotton and jute. At the same time, the production of other primary commodities was declining, while the population of the country was increasing at the rate of 45 lakhs a year.

There is thus an urgent need to reorientate the economic life of the country in all directions. Even to build a small house we need a plan and a correct idea of our resources. To set the house of Indian economy in order, planning is absolutely essential.

Objective of Planning

Our objective, as of other nations, is that "the citizen of democracy should be guaranteed **as of right** enough food to maintain him in health. He should be assured of minimum standards of shelter and clothing. He should be given full and equal opportunities of education. He should have leisure and facilities for enjoying it. He should be secured against the risk of unemployment, ill-health and old age."[1] To achieve this we need a well thought-out plan. A plan involves an organised effort to achieve ends laid down beforehand. It aims at developing partially-developed or undeveloped resources. It aims at utilisation of all present resources and their correct allocation in all competitive occupations. It works for a correct balance be-

1. Sir J. P. Srivastava: *Aim of Post-war Reconstruction.*

tween demand and supply so as to avoid the extremes of over-production and shortage. It aims at assigning priorities as between different lines of production, whether more guns or more butter, whether steel should come first or cloth should get priority over luxury articles. The fundamental objective of planning is to accelerate economic development by bringing about optimum utilisation of resources, to reduce inequalities in wealth distribution and to remove imbalances in the economy. India launched its planning programme in 1950 with its First Five-Year Plan.

First Five-Year Plan

In the development programme of the public sector during the First Plan period, initially an outlay of Rs. 2,069 crores was proposed; it was later raised to Rs. 2,356 crores. But the actual outlay was about Rs. 1,960 crores or 17% less than the revised target.

Agricultural development, along with irrigation and the generation of electric power, had the highest precedence during the First Plan period. The development of transport and communications also received high priority. This inevitably limited investment by the public authorities on industries. Industrial expansion in the First Plan period was, therefore, left largely to private initiative and resources.

It will be seen that realisations by and large were in conformity with the proposals. The target for investment was Rs. 3,500 to Rs. 3,600 crores. Actually it was about Rs. 3,100 crores, half of which was in the public sector and half in the private sector.

The First Five-Year Plan had a two-fold objective: Firstly, it aimed at correcting the disequilibrium in the economy caused by the war and the Partition. Secondly, it proposed to initiate simultaneously a process of all-round balanced development which would ensure a rising national income and a steady improvement in living standards. The economic situation at the commencement of the Plan was far from satisfactory. There were acute shortages of food and raw materials. The transport system had been severely run down. Then there was the special problem of rehabilitation of the refugees. There were inflationary pressures within the economy, the wholesale price index being 450 (1939=100). There was little co-ordination between the different development projects.

The Plan at first tried to present a co-ordinated view of the requirements of the economy and of the resources available. It worked out a scheme of priorities in order to restore balance to the economy and to lay the foundations of orderly development.

The overall results of the Plan were reflected in the increases in national income in the aggregate and in the major sectors. Over the Plan period, the national income increased by about

17.5%. The net output of agriculture and ancillary fields showed an increase of 14.7%, of mining, manufactures and small enterprises an increase of 18.2%, of commerce, transport and communication was 18.6% and that in other services 23.7%. The per capita income over the Plan recorded an increase of 10.5%. "The First Five-Year Plan was instrumental in bringing about a marked improvement in levels of production, both in agriculture and in industry. It also initiated a number of structural and institutional changes. The Plan has evoked widespread public interest and enthusiasm and there is a new and insistent urge for rapid development all over the country. Altogether, the First Plan was only an initial step. The problems of resources mobilisation and of countering the shortages and bottlenecks at various points which are associated with sustained development effort did not emerge fully in the period of the Plan. Both from the point of view of the stepping up of investment substantially and of keeping the various sectors of the economy moving together in balance, the real tasks, it could be said, are yet ahead."

Second Five-Year Plan

The Second Plan was an extension of the First Plan. The Second Five-Year Plan sought to build rural India, to lay the foundations of industrial progress and to secure to the greatest extent possible opportunities for the weaker and under-privileged sections of our people and the balanced development of all parts of our country. The aim of the Second Plan was the establishment of a socialistic pattern of society This means that the basic test for determining the lines of advance must not be private profit but social gain Economic development should result not only in an appreciable increase in national income and employment, but also in greater equality in incomes and wealth. The socialistic pattern must enlarge opportunities for all, promote enterprise among the disadvantaged classes and create a sense of partnership among all the sections of the community.

With this end in view, the following principal objectives were laid down in the Second Plan:—

(i) a sizeable increase in national income so as to raise the level of living in the country;

(ii) rapid industrialisation with particular emphasis on the development of basic and heavy industries;

(iii) a large expansion of employment opportunities; and

(iv) reduction of inequalities in income and wealth and a more even distribution of economic power.

As compared with the First Plan, the following points in the Second Plan are noteworthy:

1. The proposed development outlay of the Central and State Governments amounted to Rs. 4,800 crores over the period

of the Second Plan, as compared with the target of Rs. 2,356 crores and actual outlay of Rs. 1,960 crores under the First Plan. This did not include the contributions in cash or kind made by the people towards the execution of local development works.

2. In absolute terms, the outlay showed a sizeable increase under all heads, compared to the First Plan. As a proportion of the total outlay, there was significant increase under the head Industry and Mining from 7.6 per cent in the First Plan to 18.5 per cent in the Second. Transport and Communications also showed an increase from 23.6 per cent to 28.9 per cent. Agriculture and Irrigation showed a decline from 33% to 21%. The relative shares of all the other groups showed a decline.

3. The First Plan was formulated at a time of acute shortage of foodstuffs. Naturally top priority had to be given to agriculture. In the Second Plan, the agriculture got considerable sums for development but the emphasis was on industry. The greatest emphasis was on basic industries, namely, cement, steel, fertilizers, coal, chemicals, electric equipment, etc.

4. Another change was that the extent of investment by the private sector was comparatively less than in the First Plan. The share of the private sector in the First Plan was 50% of the total investment (Rs. 1,600 crores). It was 1/3rd in the Second Plan (Rs. 2,100 crores). Private sector was mainly assigned consumer goods industries.

5. In terms of basic factors, the First Plan had provided for 5 to 7% of national income as rate of investment. The Second Plan aimed at 10%. Consequently, a somewhat higher capital intensity than in the First Plan was aimed at. Due to this, higher rate of **capital productivity** was assumed in the Second Plan than in the First.

6. In terms of employment opportunities, the Second Plan laid stress on diversification of population to secondary and tertiary occupations and aimed at removing further pressure on agriculture. It also aimed at increasing production of consumer goods through encouragement of small-scale and cottage industries, thus creating more employment opportunities. The aim was to provide employment to 8 million people in occupations other than agriculture.

7. The emphasis on reduction of inequalities and development of socialistic pattern of society as well as stress on raising the level of backward groups and under-developed areas was an important difference in the two Plans.

It would appear that national income was to increase from Rs. 10,800 crores in 1955-56 to about Rs. 13,480 crores in 1960-61 (at constant prices), i.e., by about 25 per cent. This meant an increase of about 18 per cent in per capita income from Rs. 281 in 1955-56 to Rs. 331 in 1960-61 as against an increase of 11 per cent over the First Plan period (from Rs. 253 to Rs. 281). The share of agriculture and allied pursuits in total national income

declined from 48 per cent in 1955-56 to 46 per cent in 1960-61, and that of mining and factory establishments increased correspondingly from 9 to 11 per cent. **It is this fact which underlines the need for a continuing emphasis on industrialisation during subsequent plan periods.**

Working of the Second Plan. Dr. John Matthai remarked that the Second Plan was modest looked at from the point of view of the requirements of our people but it was ambitious from the point of view of the available resources and the period within which it is to be implemented. According to World Bank Mission that visited India in early 1960, "India's First Plan was mostly a piecing together of programmes and was completed with some success." The Second Plan was "slightly over-ambitious and was fairly successful because of the very large assistance secured from friendly foreign countries." It was said that the Second Plan was unrealistic in its development aims. The position of resources was also far from satisfactory; there were no appreciable savings in the budgets and there was too much reliance on deficit finance as well as foreign aid. It was also said that the plan did not seem to provide enough for transport which would become a bottleneck. The deficit in balance of payments was probably the most menacing threat to the success of the Plan. However, the critics were told that no substantial success could be achieved without aiming sufficiently high.

The Plan was also attacked on the ground that it did not attach sufficient importance to agriculture. However, though a smaller percentage of the total amount was to be spent on agriculture during the Second Plan-period, the actual amount is greater.

In the third year of the Plan, it was becoming apparent that it was beyond our means. Expert opinion advised India to hasten slowly. The Reserve Bank said in a monograph: "During the difficult phase that the development of the country is entering, however, the claims of further expansion or investment in new directions have to be carefully balanced with those of the maintenance of the current economic activity." The language is restrained but the meaning is clear. The World Bank was more explicit. The two-man mission of the bank that visited India in June 1957 said in its report: "The point has now reached when India should concentrate on consolidating the investment already in progress before embarking on any large new undertaking....India has already heavily mortgaged on her foreign exchange earning even before account is taken of additional loans that may be sought for completion of the Second Five-Year Plan, and execution of the Third Plan....Plans for future development must be based on realistic assessment of resources likely to be available particularly foreign exchange."

The report continues: Not the least dangers to be guarded against in the present stage of development in pursuit of welfare

at the expense of efficiency. A tendency in this direction has been reflected in the emphasis initially placed on welfare in the community development programme, in the lavish social amenities in the new Government factories, in the recent talks of introducing a system of unemployment insurance for production of cottage industries. Nor is it always realised that policies designed to protect interests of a particular group may work indirectly to the disadvantage of the community as a whole. In particular, if industrial costs are overloaded with social overheads, India will find it increasingly difficult to compete abroad and the resulting loss of exports may lead to the slowing down of investment. Experience of the past two years has revealed serious deficiencies in the organisation for planning at the Centre, spending departments have not always been properly supervised, and economic decisions at times have been unduly influenced by pressure from "State Governments". This indeed is a severe indictment.

The Indian economy showed sign of stress and strain during the first three years of the Plan. The resources were stretched to maximum to cope with the rising tempo of Plan outlay which was Rs 635 crores in 1956-57, Rs. 861 crores in 1957-58 and Rs. 960 crores in 1958-59. It was estimated at Rs. 1,121 crores in 1959-60 and Rs. 1,174 crores in 1960-61. The Plan went into deep waters in its second year in 1957-58. The main difficulty was of finance and acute shortage of foreign exchange

In May 1958, the Planning Commission submitted a memorandum on 'Appraisal and Prospects of the Second Five-Year Plan'. The memorandum says that fulfilment of a Plan of the magnitude of the Second Five-Year Plan "calls for an effort greater and more arduous than had been previously estimated, owing to unavoidable additional expenditures in directions not originally envisaged and increase in internal and external prices. If the goals now set out, which are well within the capacity of the country, are to be fully achieved, it is imperative that there shall be a marked intensification of the efforts to increase agricultural production and to mobilise the internal resources of the country."

The Commission said that for completing an outlay of Rs. 1,800 crores, the balance of resources required in the last two years of the Plan was Rs. 2,344 crores, which was just a little less than one-half of the five-year total This was no easy task, especially as deficit financing in the first two years had been heavy and had to be kept down to the minimum. The resources available for the Plan were below expectations.

In the light of available resources, the Plan was divided into two parts: Part A involving a total outlay of Rs. 4,500 crores and comprising core projects and Part B amounting to Rs. 300 crores to be undertaken to the extent to which additional resources became available. The Commission, therefore, worked out revised allocations. It was proposed to allocate larger re-

sources in favour of agricultural production and to reduce somewhat the allocations for animal husbandry, forests, soil conservation and other heads.

The difficulties were real and formidable. But foreign aid from friendly countries and the World Bank flowed in. The tax effort was also intensified. Non-essential and non-development expenditure was reduced to the minimum. We thus muddled through the Second Plan and confidently looked forward to the launching of the Third Plan.

Decade of Planning (1950-51 to 1960-61). India completed quite successfully ten years of its planned economic development at the end of the Second Plan in March 1961. The first two Plans mark the first phase in fulfilling the economic and social objectives of India's planned development. During this decade there has been rapid expansion of the Indian economy. Also, outlines of the country's future social and economic structure have been established. Besides, foundations have been laid for the achievements of the basic objects and the long-term economic goals set before the country.

The First Plan sought to strengthen the economy at the base: (a) by repairing the damage caused by the war and the partition, (b) by providing certain essential and economic overheads which would make rapid development possible, and (c) by establishing the basic social and economic policies for economic development according to the Directive Principles of our Constitution.

The Second Plan aimed at a large increase in production, in investment and in employment. It also sought to make the economy more dynamic in terms of economic as well as social ends. This it would do by the building up of basic industries and reorganisation of the rural economy through agrarian reforms, community development and co-operation. The Second Plan placed emphasis on: (a) accelerating the growth of the national economy, (b) increasing employment opportunities, and (c) reducing disparities in income and wealth and preventing concentration of economic power.

During five years of the First Plan, several projects which had been worked out earlier were taken up and integrated into a well-knit scheme of economic and social development embracing every part of the country. The First Plan aimed at building up the basis for more rapid economic and industrial advance in the future and for this purpose laid emphasis on agriculture, irrigation and power and transport. The First Plan also initiated some of the basic policies relating to social change and institutional reforms and these also were further developed in the Second Plan.

The noteworthy achievements of the First Plan were: (a) the reforms of antiquated land system which was hampering agricultural production, (b) setting up of a nation-wide agricul-

tural extension service as a part of a comprehensive community development programme, (c) revitalisation of the co-operative movement, (d) expansion of irrigation and power facilities on a large scale, (e) strengthening and improving the administrative structure of the country, (f) establishing a number of specialized institutions for providing credit to agricultural and small-scale industries, and (g) giving special facilities to the backward sections of the population. In fact it was a planned effort for achieving rapid economic growth as well as social justice.

The Second Plan carried the basic policies initiated under the First Plan a step further and aimed at a large increase in investment, production and employment. It laid special emphasis on the development of basic and heavy industries because industrial development constitutes an essential element in the strategy for accelerating the development of the national economy over the next fifteen years or twenty years. The Plan also defined more clearly the key role that the public sector had to play in the economic development of the country. The Second Plan put before the nation a goal of the socialistic pattern of society. It set before itself the objectives of increasing employment opportunities and reducing disparities in income and wealth and bringing about more even distribution of economic power.

As a result of the efforts made in these ten years of planning, there was a substantial increase in the rate of investment. The total investment, public and private, increased from Rs. 500 crores per annum at the beginning of the First Plan to Rs. 850 crores at its end and reached the new level of about Rs. 1,600 crores at the end of the Second Plan. At current prices, the total investment during these ten years was Rs. 10,110 crores, Rs. 5,210 crores in the public sector and Rs. 4,900 crores in the private sector.

The total outlay in the public sector can be distributed as under :—

Distribution of Outlay

(Rs. crores)

Head	*First Plan*		*Second Plan*	
	Expenditure	*Percentage*	*Expenditure*	*Percentage*
Agriculture and community development	291	15	530	11
Major and medium irrigation (including flood control)	310	16	420	9
Power	260	13	445	10
Village and small industries	43	2	175	4
Industries and minerals	74	4	900	20
Transport and communications	523	27	1,300	28
Social services and miscellaneous	459	23	830	18
Total	1,960	110	4,600	100

The above table indicates changes in the emphasis in the two plans. In the First Plan, relatively greater stress was placed on programme designed to build up the agricultural potential of the country, i.e., on the programme of agriculture and irrigation which constituted 31% of the Plan outlay. In the Second Plan, however, greater emphasis was laid on the industrial development and the relative share of industry and minerals increased from 4% to 20%. Transport and communication were given high priority in both the plans. Social services and miscellaneous heads comprised 23% of the First Plan outlay and 18% of the Second Plan outlay.

During these ten years, there has been uniform progress in the various economic fields. During the First Plan owing to substantial progress in the agricultural sector, the national income increased by 18% as against the target of 12%. During the Second Plan, on the other hand, the increase in national income was 20% as against the target of 25%.

We can notice overall progress during the decade. Basic facilities like irrigation, power and transport which are essential for agricultural and industrial development have been greatly expanded. Valuable mineral deposits have been discovered. A number of projects have been completed. Agricultural production has expanded by about 41% and output of foodgrains has gone up by 46%. The net output of organised manufacturing industries as already mentioned, has nearly doubled by about Key industries, like steel, coal mining and heavy chemicals, have registered substantial increase. There has also been much expansion of electric power generating capacity and considerable improvement in the expansion of the country's transport and communication system. There has been a general expansion of organised industries. The village and small industries have recorded substantial development.

During these ten years, facilities for education and technical training have become much more widespread than before. The number of hospitals and dispensaries has significantly increased and there has been general improvement in health conditions resulting in substantial increase in the survival rate. Increase in national income has been 42% over the last decade. But owing to the increasing population the increase in income per capita has been only 16%.

The following are the selected indicators of the growth of the Indian economy over the ten years of planned development.

Four Selected Indicators of Growth

Item	*Unit*	*1950-51*	*1955-56*	*1960-61*	*Percentage increase in 1960-61 over 1950-51*
National income at 1960-61 prices	Rs. crores	10,240	12,130	14,500	42
Population	millions	361	397	438	21

Item	*Unit*	*1950-51*	*1955-56*	*1960-61*	*Percentage increase in 1960-61 over 1950-51*
Per capita income at 1960-61 prices	Rs.	284	306	330	16
Index of agricultural production	1949-50=100	96	117	135	41
Foodgrains production	million tons	52·2	65·8	76·0	46
Nitrogenous fertilisers consumed	000 tons of N	55	105	230	418
Area irrigated (net total)	million acres	51·5	56·2	70·0	36
Cooperative movement advances to farmers	Rs. crores	22·9	49·6	200·0	773
Index of industrial production	1950-51=100	100	132	194	94
Production of steel ingots	million tons	1·4	1·7	3·5	150
Aluminium	000 tons	3·7	7·3	18·5	400
Machine tools (graded)	value in Rs. crores	0·34	0·78	5·5	1,518
Sulphuric acid	000 tons	99	164	363	267
Petroleum products	million tons		3·6	5 7	. .
Cloth :					
Millmade	million yards	3,720	5,012	5,127	38
Khadi, handloom and powerloom	million yards	897	1,773	2,349	162
Total :	million yards	4,617	6,875	7,476	62
Minerals : iron ore	million tons	3·2	4·3	10·7	234
Coal	million tons	32·3	38·4	54·6	69
Exports	Rs. crores	624	609	645	3
Power : installed capacity	million KW	2 3	3 4	5·7	148
Railways : freight carried	million tons	91	114·0	154·0	68
Roads : surfaced including national highways	000 miles	97·5	122·0	144·0	48
Commercial vehicles on road	000 numbers	116	166	310	81
Shipping	Lakh GRT	3·9	4·8	9·0	131
General education : students in schools	million numbers	23·5	31·3	43·5	85
Technical education : engineering and technology					
Degree level-intake	000 numbers	4·1	5·9	18·9	230
Health : hospital beds	000 numbers	113	125	186	65
doctors (practising)	000 numbers	56	65	70	25
Consumption levels: food	calories per capita per day	1,800	1,950	2,100	17
cloth	yards per capita per annum	9·2	15·5	15·5	68

Progress made in the various sectors may now be briefly mentioned.

Agriculture. Although there have been fluctuations from year to year, there was overall expansion all right. The average level of foodgrains production of about 50 million tons in the preceding decade was exceeded in the First Plan and amounted to over 76 million tons in 1950-51. There was also significant increase in the yield per acre. For example, in the case of rice, the yield went up from 694 lb. in the quinquennium 1946-47 to 1950-51 to 727 lb. during the First Plan period and 807 lb. in the Second Plan period. The increase in production of major agricultural commodities has been as follows:

Production of Major Crops

Crops	*Unit*	*1950 51*	*1955-56*	*1960-61*
Foodgrains (cereals and pulses)	million tons	52·2	65·8	72·0
Oilseeds	million tons	5·1	5·6	7·1
Sugarcane (gur)	million tons	5·6	6·0	8·0
Cotton	million bales	2·9	4·0	5·1
Jute	million bales	3·3	4·2	4·0

The total outlay on agriculture, community development and irrigation amounted to Rs. 1,551 crores during the decade. The net area irrigated is estimated to have increased from 51.5 million acres in 1950-51 to about 70 million acres in 1960-61. About four million acres were reclaimed by the end of 1960-61. Mechanical cultivation was extended to 0.5 million acres and land improvement to about 1.5 million acres. Nearly 4,000 seed farms were established. Measures were also taken for the development of livestock and fisheries, milk supply, vegetable and fruit cultivation and afforestation. For instance, production of milk went up from 17 million tons to 22 million tons.

Not only were the programmes for agricultural development formulated and implemented, but determined effort was also made to re-organise the structure. Measures in this connection included the abolition of intermediaries (such as zamindars and jagirdars), protection and improvement of tenancy rights and imposition of ceilings on land holdings. Consolidation of holdings was also intensified in the various States. Efforts were also made for ameliorating economic conditions of agricultural labourers.

The most significant development in the agricultural sector was introduction of the extension services throughout the country as an integral part of the community development movement

and democratic decentralization of rural development work. At the end of the Second Plan, the community development movement covered about 370,000 villages and well over half of the country's rural population. The co-operative movement also made considerable progress during the decade. The number of primary agricultural societies almost doubled.

Industry. The industry has also witnessed during the past decade striking development in terms both of the rate as well as pattern of industrial growth. The index number of industrial production recorded cumulative rate of expansion of about 7% per annum. Even more significant has been the direction of the expansion. During the First Plan, the aim was chiefly to encourage the already existing factories to use their full capacity. Industrial production rose by 39%. It was possible in the Second Plan to take up in a large way the development of new industries, especially the capital and producer goods industries which constitute the base of any programme for accelerated industrial growth, so that a self-reliant economy is established. The public sector was assigned a key role in the development of basic and heavy industries. Accordingly the total outlay on industries and minerals in the public sector amounted to Rs. 974 crores over the decade. Investment in the Second Plan period alone in the public sector came to 56% of the total investment in organised industry, public and private. A major step forward was taken with the establishment of three new steel plants in the public sector and the expansion of the two units in the private sector. Another significant development has been the rapid growth of machine-building industries. India has now produced progressively increasing quantities of machine tools and machinery for use in agriculture, transport and industries. A large variety of electric equipment and scientific instruments are also now being produced in the country. Steps were also taken for the establishment of heavy machine-building plants. The total value of the various kinds of industrial machinery and capital goods produced was eleven times as much as in the beginning of the decade. There has also been modernisation and re-equipment of important industries, like cotton and jute textiles and sugar. Another achievement during the period has been the progress made in increasing the indigenous content of the industrial products manufactured in the country. There has also been considerable progress in consumer industries also.

The Federation of Indian Chambers of Commerce and Industry claims that private enterprise was primarily responsible for the widespread growth of the organised industries in India during the first decade of planning. Total investment by the private sector during the period has been put at Rs. 4,900 crores. Of this, investment in organised industries, mining and small industries was Rs. 1,400 crores or about 28 per cent. Besides an enormous expansion of consumer industries, the private sector created during the decade a nucleus of machine-building industry including equipment for textiles, sugar, tea processing,

cement, paper, printing, industrial boilers and machine tools. All this was achieved despite several handicaps. Cumbersome licensing procedure, shortage of foreign exchange, scarcity of imported raw materials and machinery and transport and power bottlenecks proved obstinate impediments to industrial production in the private sector.

The following table gives some idea of the progress made in the important producer and consumer goods.

Production in Selected Industries

Item	*Unit*	*1950-51*	*1960-61*
Steel ingots	million tons	1·4	3·5
Aluminium	000 tons	3 7	18·5
Diesel engines	000 numbers	5·5	40
Electric cables (ACSR conductors)	000 tons	1·7	22·0
Nitrogenous fertilisers (in terms of N)	000 tons	9	110
Phosphatic fertilisers (in terms of P_2O_5)	000 tons	9	55
Sulphuric acid	000 tons	99	363
Cement	million tons	2·7	8.5
Cotton textiles (mill made)	million yards	,720	5,127
Sugar (relates to crop year. November October	million tons	1 1	3.0
Paper and paper board	000 tons	114	350
Bicycles (organised sector only)	000 numbers	101	1 050
Automobiles	000 numbers	16·5	53.5

The development of village and small industries formed integral part in an expanding national economy from the very beginning of the programme of economic development. During the last ten years Rs. 218 crores were spent by the Government for the development of these industries. All-India Boards were set up for formulating, guiding and implementing co-ordinated programmes for the development of small-scale industries, handloom industries, khadi, village industries, handicrafts, etc. Industrial extension service was developed and small Industries Services Institutes were set up in every State. About 60 industrial estates, comprising over 1,000 small factories using power, were established. Special arrangements were made for the provision of technical advice and raw material and supply of imported and indigenous machines on hire-purchase terms.

Power. Provision of adequate power is one of the basic requirements in the development of both large and small-scale industries. Thus a number of hydro-electric and thermal power projects were constructed during these ten years. The total public sector investment in power amounted to Rs. 705 crores. The total installed capacity rose from 2.3 million kw. in 1950 to 5.7 kw. in 1960-61. However, it fell substantially short of the target

of 6.9 million kw. This was due to foreign exchange difficulties. The total number of towns and villages electrified went up from 3,687 in 1950-51 to 23,000 in 1960-61.

Transport and Communication. Considerable improvement and expansion took place in the country's transport system during the last decade. The total public sector outlay was Rs. 1,823 crores. The main task in the First Plan was the rehabilitation and replacement of rolling stock and fixed assets of the railways which had been subjected to severe strain on account of the war and partition. During the Second Plan additional facilities were provided to meet the growing requirements of the agricultural and industrial sectors. There was also substantial expansion in road transport, shipping and air services. By 1955-56, 380 new railway lines were added and by 1960-61, 800 miles of new lines. The number of locomotives was 8,500 in 1950-51 and 9,200 in 1955-56 and 10,600 in 1960-61. The surfaced roads increased from 97,500 miles in 1950-51 to 1,22,000 miles in 1955-56 and further to 1,44,000 miles in 1960-61 and the unsurfaced from 1,51,000 in 1950-51 to 1,95,000 miles in 1955-56 and 2,50,000 miles in 1960-61. The shipping tonnage increased from 3.9 lakh GRT in 1950-51 to 4.8 lakh GRT in 1955-56 and 9 lakh GRT in 1960-61.

Social Services. The development of the human resources of the country through the provision of facilities for education, health and social welfare is one of the major objectives of planned development. In the First Plan considerable importance was attached to social services. Altogether Rs. 1,289 crores were spent during the decade. There was all-round development of education. The number of students in schools increased from 23.5 millions in 1950-51 to as many as 43.5 millions in 1960-61—the increase of 85%. The number of primary schools increased from 2,10,000 to 3,42,000. There was a smaller increase in high and higher secondary schools and in the number of universities and colleges. Special emphasis was placed on developing facilities for technical education, which is the very basis of industrial development. Facilities in existing institutions were expanded and improved and 51 new degree colleges and 110 polytechnics were opened during the last ten years. Technical training facilities were also provided in a number of industries established in the public sector.

There was considerable expansion of health services. A large number of new hospitals and dispensaries, health units and maternity and child welfare centres were opened and special programmes for water supply and sanitation and control of diseases were undertaken. In 1950-51 there were 860 medical institutions with about 1,13,000 beds, whereas in 1960-61 the number increased to 1,260 institutions with 1,85,600 beds. In addition 2,800 primary health centres were opened. The number of medical colleges increased from 30 to 57. The entire population was covered by the malaria eradication programme. In the First Plan, family planning was adopted as a public policy and by 1960-61

there were 549 urban centres and 1,100 rural centres engaged in family planning services. Special welfare programmes were undertaken for scheduled tribes, Harijans and other backward classes. The relief and rehabilitation of displaced persons from Pakistan was a major undertaking during the First and Second Plans. The total outlay on rehabilitation under the Second Plan amounted to Rs. 168 crores. During these ten years, additional employment opportunities were created to absorb the unemployed persons. But increase in population has accentuated the problem of unemployment. In spite of expansion of employment opportunities, the backlog of unemployment was estimated at about 9 millions at the end of the Second Plan.

Conclusion. From this brief survey of the development work done during the last ten years, "it will be seen that the country has made considerable progress in every branch of national life. It experienced, no doubt, at the same time, stresses and strains. These are the growth-pains of an economy struggling to find its way out of deep-rooted poverty and the economic stagnation of centuries. In every direction new grounds have been broken and valuable experience gained. There still exist many weaknesses in the economic and social structure of the country. The country's potential for development still is far from being realised. Yet all these are a part of an inspiring period in the nation's history—a story of continuous endeavour reaching into the far corners of the land and drawing within its fold all sections of the people." There is no doubt that Indian economy is no longer stagnant, but it must be admitted that the rate of the progress has not been very satisfactory. A great deal of growth potential has been created which will yield dividends later. The investment programmes have been directed more towards creating capacity than accelerating immediate production. There has been only a marginal increase in the standard of living.

CHAPTER XXXVI

Second Decade of Planning and Development

(1960-61 to 1970-71)

Third Five-Year Plan (1960-61—1965-66)

Before we give the aims and outlays of the Third Five-Year Plan, it is necessary to remind the readers that the objective of planned development is not only to increase production and attain higher level of living. The object is also to secure the social and economic order based on the values of freedom and democracy in which justice, social, economic and political, shall inform all the institutions of the national life. In defining the objectives, priority and targets for the Third Five-Year Plan the determining considerations are the social objectives, the requirements of the economy, the perspective of the long-term development and the actual progress achieved during the first two Plans. The principal aim of the Third Plan is to secure a marked advance towards self-sustaining growth. Basically the self-sustaining growth implies that savings and investment in the economy rise sufficiently to secure a high rate of growth of income on a continuing basis.

The principal aims of the Third Plan have been laid down as under:—

(1) to secure an increase in national income of over 5% per annum, the pattern of investment being designed also to sustain this rate of growth during subsequent Plan periods;

(2) to achieve self-sufficiency in foodgrains and increase agricultural production to meet the requirements of industry and exports;

(3) to expand basic industries like steel, chemical industries, fuel and power and establish machine-building capacity, so that the requirements of further industrialisation can be met within a period of ten years or so mainly from the country's own resources;

(4) to utilise to the fullest possible extent the manpower resources of the country and to ensure a substantial expansion in employment opportunities; and

(5) to establish progressively greater equality of opportunity and to bring about reduction in disparities in income and wealth and a more even distribution of economic power.

The period of the Third Plan represents the first stage of a decade or more of intensive development leading to a self-reliant and self-generating economy. The first two Plans have already laid the foundations for rapid economic growth. India's economy is now much larger in size and in the range of its operations. It has also become more dynamic and more complex. In all directions there are large and growing demands to be met. Thus the Third Plan will call for the maximum rate of investment that can be achieved.

The Third Plan represents in some respects the wider view of the problems and development and calls both for more intensive effort and a greater sense of urgency. In particular, the Third Plan will be directed towards strengthening the agricultural economy, developing industry, power and transport and communication and hastening the progress of industrial and technological change. It is thus calculated to achieve marked progress towards equality of opportunity and the socialistic pattern of society and provide employment for the entire addition to the labour force.

It has been realised that there is need to mobilize the domestic resources of the country to the greatest extent possible. For achieving a cumulative rate of growth of over 5% per annum, it will be necessary to undertake net investment of the expenditure of more than 14% of the national income as compared to the present level of about 11.5%. This will need the raising of the rate of domestic savings from about 8.5% to about 11.5% by the end of Third Plan. Domestic resources will have to be supplemented in substantial measures by external assistance.

The few selected targets of the Third Plan are given in the table below:—

Selected targets

Item	*Unit*	*1960-61*	*1965-66*	*Percentage increase in 1960-61 over 1960-61*
1	2	3	4	5
Index number of agricultural production	1949-50=100	135	176	30
Foodgrains production	million tons	76	100	32
Nitrogenous fertilisers consumed	000 tons of N	230	1000	335

1	2	3	4	5
Area irrigated (net total)	million acres	70	90	29
Cooperative movement advances to farmers	Rs. crores	200	530	165
Index number of industrial production	1950-51 = 100	194	329	70
Production :				
Steel ingots	million tons	3·5	9·2	163
Aluminium	000 tons	18·5	80	332
Machine tools (graded)	value in Rs. crores	5·5	30.0	445
Sulphuric acid	000 tons	363·7	1500	313
Petroleum products	million tons	5·7	9·9	70
Cloth :				
Mill-made	million yards	5127	5800	13
Handloom, powerloom and Khadi	million yards	2349	3500	49
Total	million yards	7476	9300	24
Minerals :				
Iron ore	million tons	10·7	30·0	180
Coal	million tons	54·6	97·0	76
Exports	Rs. crores	645	850	32
Power : installed capacity	million KW	5·7	12·7	123
Railway freight carried	million tons	154	245	59
Road transport : commercial vehicles on roads	000 numbers	210	365	74
Shipping : tonnage	lakh GRT	9·0	10·9	21
General education (students in schools)	million numbers	43·5	63·9	47
Technical education :				
Engineering and technology degree level intake	000 numbers	13·9	19·1	37
Health :				
Hospital beds	000 numbers	186	240	29
Doctors practising	000 numbers	70	81	16
Consumption levels :				
Food	calories per capita per day	2100	2300	10
Cloth	yards per capita per annum	15·5	17·2	11

Financial Provisions. The estimate of the financial resources in the Third Plan in the public sector has been placed at Rs. 7,500 crores. Of this investment is estimated at Rs. 6,300 crores and current outlay representing expenditure on staff, subsidies, etc., at Rs. 1,200 crores. The Plan includes outlays not

only by the public sector of Rs. 6,300 crores but also investment by the private sector estimated at Rs. 4,100 crores. The break-up of these investments is shown in the following table:

Investment in Second and Third Plans

(Rs. crores)

Head	*Second Plan*				*Third Plan*			
	Public	*Private*	*Total*	*Percentage*	*Public*	*Private*	*Total*	*Percentage*
Agriculture and community development	210	625	835	12	660	800	1460	14
Major and medium irrigation	420	*	420	6	650	*	650	6
Power	445	40	485	7	1012	50	1062	10
Organised industry and minerals	870	675	1545	23	1520	1050	2570	25
Village and small industries	90	175	265	4	950	275	425	4
Transport and communications	1275	135	1410	21	1486	250	1736	17
Social services and miscellaneous	340	950	1290	19	622	1075	1697	16
Inventories	...	500	500	8	200	600	800	8
Total	3650	3100†	6750	100	6300	4100†	10400	100

* Included under agriculture and community development

† Excludes transfers from public to private sector.

The level of investment, public and private sectors, was expected to rise from about Rs. 1,600 crores in the last year of the Second Plan to about Rs. 2,600 crores at the end of the Third Plan. Corresponding increase in the public sector alone is Rs. 800 crores and Rs. 1,700 crores. The foreign exchange requirement has been estimated at Rs. 2,030 crores. Of the programme included in the public sector, the plans of States account for Rs. 3,847 crores and of Union territories Rs. 175 crores.

We briefly mention here the programmes for the Third Plan prepared for the various sectors of the Indian economy.

Agriculture. The first priority in the Third Plan necessarily belongs to agriculture, since experience has shown that the rate of growth in agricultural production is one of the main limiting factors in the progress of the Indian economy. The rural economy is to be diversified and the proportion of the population dependent on agriculture gradually diminished. The guiding consideration is that whatever is physically practicable should be made financially possible.

Programmes for agriculture, irrigation and community development included in the Third Plan entail total outlay of Rs. 1,817 crores as compared to estimated expenditure of Rs. 950 crores in

the Second Plan. These programmes aim at nearly doubling the rate of growth of agricultural production over the next five years. Production of foodgrains is expected to rise by 30% and of other crops by 31%.

To achieve this high rate of growth, intensive efforts will be made in several directions: (1) The programme of irrigation, comprising major, minor and medium irrigation schemes, will extend irrigation to about 20 million acres, raising the net irrigated area to about 90 million acres. (2) Dry farming techniques are to be introduced on about 22 million acres and soil conservation measures over an area of about 11 million acres. (3) Consumption of fertilizers is to be stepped up—the five-fold increase being aimed at in nitrogenous fertilizers. The area under green manures is to be increased from 11.8 million acres to 41 million acres. Plant protection measures are to be undertaken over an additional area of 50 million acres. (4) Special efforts are to be made to introduce modern technology in rural areas through a large-scale programme for improved agricultural implements and machines. (5) Extension of the community development programme to the entire rural area by October 1963, thus bringing technical assistance and supplies within reach of all the farmers in the country. Membership of service co-operatives is expected to increase to about 37 million, i.e., about 2/3rds of all agricultural families. Considerable expansion of co-operation credit is aimed at, the target being Rs. 530 crores of short and medium-term advance and Rs. 150 crores of long-term credit. (6) Selected districts which have particular favourable agricultural facilities and assured rainfall will be put under intensive development programme for stepping up agricultural production.

With the achievement of the agricultural targets, it is hoped that the economy will become self-sufficient in the supply of foodgrains and per capita availability will go up from 16 oz. per day in 1960-61 to 17.5 oz. per day in 1965-66. The per capita consumption of cloth per annum will go up from 15.5 yards in 1960-61 to 17.2 yards in 1965-66. Production of subsidiary foods like fruit and vegetable will be given special attention. Big programmes for the improvement of animal husbandry, dairying, fisheries and forestry have also been included in the Third Plan. The number of veterinary hospitals and dispensaries will be raised from 4,000 to 8,000. Of the key village blocks already established 55 will be expanded and 38 new blocks will be set up. The production of milk will be increased from 22 million tons to 25 million tons. The production of fish will be stepped up from 1.4 million tons to 1.8 million tons. There will thus be an all-round increase.

Industries. In the Third Plan, as in the Second, the development of basic industries such as steel, fuel and power and machine-building and chemical industries is fundamental to rapid economic growth. Programmes for industrial development have been drawn up from the point of view of the needs and priorities

of the economy as a whole, the public sector and the private sector being considered together. However, while the private sector will have the large contribution to make, the role of the public sector in the development of the economy will be even more dominant. The Third Plan will also carry further the present efforts of building up small industries as a vital segment in the industrial structure by promoting greater integration between large-scale and small-scale industries.

In the Third Plan the programme for expansion of industries, especially capital and producer goods industries, is of basic importance. Special emphasis will be laid on machine-building and development of managerial skill, technical know-how and designing capacity. In this programme the public sector has been assigned a key role. But the private sector is also expected to play an important role within the framework of the plan. The emphasis throughout the Third Plan is on the development of this industry which will help to make the economy self-sustaining such as steel, machine-building and the manufacture of producer goods. The object is to reduce as rapidly as possible the need for external assistance to produce these goods. The production of consumer goods will be expanded substantially, mainly in the private sector.

As a result of these developments it is expected that the industrial production as a whole will rise by nearly 70%. In the public sector, the steel plants at Rourkela, Bhilai and Durgapur will be expanded and also the fourth steel plant will be set up at Bokaro. The most significant development will be the rapid growth of machine-building and engineering industry. The heavy machinery plant is being set up near Ranchi. Three heavy electrical equipment projects have been planned. The target for machine tools products in the private sector has been put up at Rs. 30 crores. The target for the automobile industry has been placed at 30,000 passenger cars and 60,000 commercial vehicles. Production of inorganic fertiliser in terms of nitrogen will be stepped up from about 110,000 tons to 800,000 tons.

The following are some of the selected targets of industrial products:

Selected Targets of Industrial Production

Item 1	*Unit* 2	*1960-61* 3	*1965-66* 4
Steel ingots	million tons	3·5	9·2
Aluminium	000 tons	18·5	80
Diesel engines	000 numbers	40	66
Tractors	000 numbers	2	10
Electric cables (ACSR conductors)	000 tons	22	44
Nitrogenous fertilisers	000 tons of N	110	800
Phosphatic fertilisers	000 tons of P_2O_5	55	400
Sulphuric acid	000 tons	363	1500

1	2	3	4
Caustic soda	000 tons	100	340
Cement	million tons	8·5	13
Petroleum products	millions	5·7	9·9
Machine tools (graded)	value in Rs. lakhs	550	3000
Ball and roller bearings	million numbers	2·9	14
Cotton textiles (mill-made)	million yards	5127	5800
Sugar	million tons	3·0	3·5
Paper and paper board	000 tons	350	700
Bicycles (organised sector only)	000 numbers	1050	2000
Sewing machines (organised sector only)	000 numbers	297	700
Automobiles	000 numbers	53·5	100

There will also be an intensified programme of mineral development. The target for coal has been fixed at 97 million tons and the target for iron ore at 32 million tons. The highest priority has been given to the exploration and exploitation of mineral oil resources in the country.

Development of village and small industries will be given special attention in order to provide employment and to increase production of consumer goods and some producer goods. The total provision for Rs. 264 crores is being made in the public sector in the programme for village and small-scale industries as against about Rs. 175 crores spent in the Second Plan. Additional funds will be available from community development programmes and programmes for rehabilitation of displaced persons, social welfare, etc. Investment in the private sector is estimated at about Rs. 275 crores. The Government will guarantee bank loans to small industries. Three hundred new industrial estates will be established as against 120 sanctioned during the Second Plan. Rural industrial estates will be set up in selected rural areas. The production of cloth by handloom and powerloom and khadi is expected to increase from 2,350 million yards in 1960-61 to 3,500 million yards in 1965-1966.

Power. Since power is the basis for the development of industries, both large and small, a high priority has been given to production of power in the Third Plan. The total provision of Rs. 1,089 crores has been made for power development, both in the public and private sectors. By the end of the Third Plan, the generating capacity is expected to be of the order of 13.4 million kw. as against 5.7 million kw. at the end of the Second Plan. The number of towns and villages electrified will be increased from 23,000 in 1960-61 to 43,000 in 1965-66. It is expected that practically all towns and villages with population exceeding 5,000 and half of this with population between 2,000 and 5,000 will receive the benefit of electricity. A nuclear power station of 0.3 million kw. capacity will be set up.

Transport and Communications. There is no doubt that transport and communications have a key role to play in the

economic development of the country. The railway development programme provides for construction of 1,200 miles of new lines and doubling of 1,600 miles of single track and manufacture of diesel and electric locomotives. The road development programme provides for the addition of about 25,000 miles of surfaced road and also for improvement of the existing road system. The road mileage will thus go up from 144,000 miles to 169,000. The plan also includes programmes for development of major and minor ports and for expansion of shipping, inland water transport, civil air transport, posts and telegraphs and broadcasting services.

The targets to be achieved are given below:

Transport and Communications

Item	*Unit*	1960-61	1965-66
Railways :			
new lines	miles	800	1,200
new double lines	miles	1,300	1,600
freight carried	million tons	154	245
Roads and road transport :			
surfaced roads including national highways	000 miles	144	169
Vehicles on road :			
commercial	000 numbers	210	365
passenger	000 numbers	50	80
goods	000 numbers	160	285
Shipping :			
tonnage	lakh G.R.T.	9.0	10 9
Ports :			
major ports—capacity	million tons	37	94
Communications :			
post offices	000 numbers	77	94
telegraph offices	000 numbers	6·5	8·5
telephone connections	000 numbers	460	660

Social Services. Considerable emphasis is also given in the Third Plan on the development of education and social services. They are essential for ensuring a fair balance between economic and social developments and equally for realising the economic aims of the Plan. Some of the programmes included in the Plan for social services are directly linked with economic development, such as scientific research, technical education and training, etc.

The Third Plan will give special stimulus to scientific research, especially in the field having a close bearing on industrial and agricultural development. New institutions for research in fields like petroleum, technology and for the development of pro-

duction of scientific instruments will be set up. Provision will also be made for expanding facilities for basic research in universities and technical institutions. Facilities for technical education and training will be substantially extended. Admission to engineering colleges will be increased from 13,860 to 19,140 and to polytechnics from 25,570 to 37,390. The capacity of four existing Central training institutes will be doubled and three new institutes will be set up. The total outturn of teachers of these institutions is expected to rise to about 8,000. The intake capacity of agricultural colleges will be increased from 4,600 to 6,200 and engineering colleges from 1,300 to 1,460. About 59,000 additional personnel have to be trained in the Third Plan as Block Development Officers, Extension Officers in agriculture, animal husbandry, co-operation, panchayats, etc. The outstanding feature of the plan will be to give free and compulsory education in the age-group 6-11 years. It is estimated that the proportion of school children to the total children will go up from 61% to 76% in this age-group. The total number of students in schools will go up from 43.5 millions in 1960-61 to 63.9 millions in 1965-66. The number of students in universities is expected to go up from 9 lakhs to 13 lakhs, the most important feature will be the provision of large number of scholarships to enable bright young students to complete their education.

In the field of health services, the number of primary health centres will be increased from 2,800 to 5,000 and hospital beds from 1,85,600 to 2,40,100. The number of practising doctors is expected to go up from 70,000 to 81,000 and nurses from 27,000 to 45,000. A high priority has been given to family planning programmes. These programmes provide for: (a) education and motivation for family planning, (b) provision of services, (c) training, (d) supplies, and (e) research.

The aim is also to provide three principal amenities to the rural areas, namely, supply of drinking water, roads linking each village to the nearest main road and provision of village school building. The Third Plan will also give financial assistance for the housing of industrial workers and low income groups, slum clearance and improvement of land acquisition development. A higher priority has been assigned to the child welfare services. The programmes for the social services and miscellaneous are expected to cost Rs. 1,526 crores.

The programmes included in the Third Plan are expected to provide employment for about 14 million people. But as a result of sharp increase in population the number of new entrants to the labour force during the Third Plan period is estimated at 17 millions. It is, therefore, necessary to increase employment opportunities still further.

It has been estimated that if all the programmes included in the Plan are completed in time, national income (at 1960-61 prices) will go up by 30%. On the basis of the present popula-

tion, per capita income will rise from about Rs. 330 in 1960-61 to about Rs. 385 at the end of the Third Plan.

Financial Resources. The scheme of financing the public sector together with the financing of the Second Plan is given below:—

Financial Resources
(Estimates for the Second and the Third Plans)

(Rs. crores)

	Item	*Second Plan as initially estimated*	*Estimated now*	*Third Plan*
1.	Balance from current revenues (excluding additional taxation)	350	50	550
2.	Contribution of Railways	150	150 (*a*)	100
3.	Surpluses of other public enterprises	(*b*)	(*b*)	450
4.	Loans from the public (net)	700	780 (*c*)	800
5.	Small savings (net)	500	400	600
6.	Provident funds (net)		170	265
7.	Steel equalisation fund (net)	250	38	105
8.	Balance of miscellaneous capital receipts over non-plan disbursements		22	170
9.	Total of 1 to 8	1950	1510	3040
10.	Additional taxation including measures to increase the surpluses of public enterprises	450 (*d*)	1052	1710
11.	Budgetary receipts corresponding to external assistance	800	1090(*c*)	2200
12.	Deficit financing	1200	948	550
	Total	4800	4600	7500

In the course of the Third Plan the nation set out to achieve as much in five years as was realised in the ten years of the First and Second Plans. The task is large in magnitude, urgency and of the great significance for the present and the future....its success depends upon the variety of factors on widespread understanding of the challenge and the burdens of development, on the release of new productive forces and increasing application of the modern science and technology changes in outlook and motivation, and finally on climate of confidence that rapid economic development is the means both to social justice and to wider economic opportunities. These are among the principal conditions for achieving fully the advance envisaged in the Third Five-Year Plan.

Progress of the Third Plan[1]

The completion of the Second Five-Year Plan gave India a sense of confidence in her economic destiny. The Third Five-Year Plan was therefore launched with trumpeting and with hopeful anticipations. The World Bank announced in June 1961 that for the first two years of the Plan loans to the extent of \$2,268 million (nearly Rs. 1,100 crores) would be made available by it and the six nations forming the 'Aid India Club'. This is said to be the largest foreign aid commitment since the Marshall Plan and a landmark in the history of co-operative aid on the part of developed countries to underdeveloped countries. This appeared to be a happy augury for the success of the Third Plan.

But the things turned to be otherwise, at any rate when the Plan had gone half way. As in the case of the Second Plan, the Third Plan too ran into difficulties arising out of adverse weather, financial difficulties, shortage of foreign exchange and transport bottlenecks. As a consequence, the mid-term appraisal of the Plan has revealed shortfalls in several sectors of production, chiefly in agriculture, a continuing rise in the prices of essential articles, a serious balance-of-payments position, sluggish stock and capital markets and a worsening unemployment situation. The actual performance of the Plan has been rather disappointing. While in the aggregate it has met with some degree of success in certain directions, the pace of progress has not been fast enough at least in view of the ground to be covered in the entire five-year period.

The annual rate of increase in the national income in the first two years at 2.5% is just half of the 5% envisaged in the Plan. Thus the first half of the Plan has been a period of slow economic growth. At this rate, the national income has barely kept pace with the increase in population which means that the per capita income has practically remained where it was. In order to achieve the target of national income, the annual rate of increase in the last three years will have to be nearly 8% which is even higher than what is considered possible for the Fourth Plan. This means that there is little hope of achieving this target. The main reason for the disappointing rate of growth of national income is the setback in agriculture which is the largest proportionate contributor in India to national income. Agricultural production was anticipated to increase on average annually by 5%. As against this, it actually rose by 1% in 1961-62 and then declined by over 3% in 1962-63 so that the index of agricultural production was lower in 1962-63 than in the last year of the Second Plan.

The performance of another major sector, viz., the industrial sector, too did not keep pace with the Plan expectations. As against the anticipated average annual growth rate of 11%,

1. See *Economic Weekly*, December 14 and 21, 1963, for mid-term appraisal.

industrial production rose by 6.5% and 8.0% respectively in the first two years of the Plan. The shortfalls have occurred in the very industries which are of crucial importance, e.g., iron and steel, aluminium, machine tools, heavy chemicals, etc. This is going to affect the subsequent plans. The Fourth Plan will start with poorer equipment than what is visualised in the long-term perspective plan.

Plan outlays of the Central and State Governments had risen progressively from Rs. 1,100 crores in 1961-62, to Rs. 1,400 crores in 1962-63, to Rs. 1,700 crores in 1963-64 and to Rs. 1,984 crores in 1964-65. The annual outlay for the State plans which originally stood at Rs. 692 crores has been raised to Rs. 750 crores. The Plan outlay for 1964-65 is likely to be Rs. 850 crores. The total outlay of the Centre and the States during the first three years 1961-64 was estimated at about Rs. 4,200 crores or about 56% of the five-year provision. Considering the availability of financial resources, it may be hoped that the targets of financial outlay will be broadly achieved both in the public and private sectors. Over the five-year period as a whole, the total outlay in the public sector might approximate to Rs. 8,000 crores as against Rs. 7,500 crores originally envisaged in the Plan. The tax effort at the Centre has already exceeded the target. The aggregate yield from additional taxation in the first three years of the Plan is estimated at Rs. 1,900 crores against a target of Rs. 1,100 crores. But in the States, the tax measures of the Plan are expected to yield Rs. 425 crores over the entire plan period against a target of Rs. 610 crores rendering it difficult for the States to implement their plans. But taking the Centre and States together, the yield from additional taxation is likely to exceed the Plan target by about Rs. 700 crores. The realisation from market loans and provident funds and railway contribution is expected to be better than anticipated. The overall resources position according to present indications is likely to show marginal improvement over the original Plan estimates. But the improvement would be more than offset by the deterioration under the item 'Balance from Current Revenues', because of the stepping-up in defence outlays and inevitable increases under other non-plan expenditure. The target of deficit financing has already been exceeded. In the first three years, deficit financing by the Centre is expected to amount to Rs. 624 crores as against the Plan estimate of Rs. 550 crores for Centre and States together over the five years. The Mid-term Appraisal thus summarises the resources position: "On the assumption that external assistance on the scale required would be forthcoming, that every effort would be made to realise the Plan estimate in respect of small savings and that it would be possible to avoid further significant increases in non-Plan expenditure, the overall resources position for the five-year period should, on present indications, show a marginal improvement over the estimate indicated in the Plan".

But the rise in prices has upset the investment-output ratio.

The investment may go up to Rs. 8,000 crores instead of Rs. 7,500 crores, but the achievement of financial target may not mean the achievement of physical targets, e.g., targets of agricultural and industrial production. Since April 1962, the trend of prices has been upward. The price rise which was about 3% in 1962-63 gathered momentum in 1963-64, the increase in general index between April and September being no less than 8%. The rise in prices has widened the gap between investment and production. In real terms, therefore, the Plan outlay is lower today than when the Plan was formulated. This explains the non-realisation of the Plan targets. The cost estimates have proved to be rather optimistic.

India's record of economic progress compares very unfavourably with the rate of growth in other, even underdeveloped, countries. Our rate of increase in industrial production (3% in a year) compares unfavourably with 5% or more achieved by 25 of the 31 underdeveloped countries included in the U.N. World Economic Survey for 1961. Judged in terms of performance rather than in terms of outlay, the Plan is lagging behind in a number of crucial sectors. Agricultural production has been halting. The rate of growth of industrial production has declined and may remain slow on account of the further import curbs that have been imposed. A number of key projects are running behind schedule. The main obstacles are inadequacy of foreign exchange, non-availability of people with technical and managerial skill, absence of reliable apparatus of government and public administration involving procedural or administrative delays, transport bottlenecks, and so on. The foreign aid ceased to flow in the measure that we expected. But the most important factor responsible for non-implementation of the Plan programmes is that a number of major Plan projects were not worked out in sufficient detail at the time of the formulation of the Plan. Considering how tentative the estimates relating to many of the major projects included in the Plan were at the time of its formulation, the overall targets of outlay and output given in the Plan are, to a great extent, notional. In the process of its implementation this has emerged as the principal weakness of the Third Plan.

We are caught up in the vicious circle of shortages in the basic facilities for development. There is a virtual crisis in coal, power, transport and steel. The power and transport situation in particular is causing deep concern. A number of power projects are handicapped for want of construction materials such as steel and cement and because of delay in the supply of machinery and generating equipment by some collaborating countries. In regard to certain power projects, the utilisation of foreign exchange is particularly poor, the record being as bad as 10% in some cases. The transport problem, grave as it is, is still evading solution. Thus the progress of the plan is hampered by one or other shortage in the basic factors of development.

The World Bank mission which visited India early in 1962 is understood to have been critical of the Union Government's handling of the economic affairs. It has expressed concern over the poor utilisation of foreign credit. It has been disappointed over the non-achievement of the Second Plan target in certain vital sectors of the economy such as steel, coal, power and transport. It is feared that the mistakes of the Second Plan are being repeated. The irksome controls on maintenance imports necessitated by the allocation of limited foreign exchange resources are mainly responsible for increasing idle capacity in the industry. The mission suggests that a more dynamic export promotion policy is required.

In a debate in the Lok Sabha in August 1962, deep concern was expressed by the members over the slow progress of the Plan and a number of suggestions were thrown out. Mr. Hem Barua (P.S.P.) characterised the progress of the Third Plan as a "progress made within the four walls of a stagnant pool". Mr P. R. Chakravarti (Congress) said that it would not be possible to increase living standards, if the planned effort increased the nation's wealth only to the level of the increase in population. There should be increasing social awareness among the people so that they realise that by having large families, they are creating a problem for everybody in the country. A member suggested that the Plan should be more rural-biased and that various incentives should be offered to the peasants to increase yield per acre. It was pointed by another that food targets would not be achieved unless stress was laid on co-operative mechanised farming. It is also suggested that land reforms be speedily and effectively implemented since the most crucial factor in agricultural progress is land reforms. The administrative machinery should be streamlined and inefficiency and corruption rooted out. The rising trend in prices should be checked and prices stabilised. The drive for savings in the country should be intensified because the rate of domestic savings in the country is very low and this is one of the factors responsible for the poor progress of the Plan.

The comments in Parliament in December 1963 were even more unfavourable which ranged from disappointment to downright condemnation of the Plan or of the administrative set up for its implementation. It was pointed out that the private sector was not fully utilising the installed capacity. The Planning Commission was described by a member as a 'frustration squad'. It was said that in spite of magnificent response of the people in the matter of additional taxation, the Plan did not make any headway. The reasons for the shortfalls are said to be adverse weather conditions and inadequate administrative co-ordination in the agricultural sector, inadequate advance planning and optimistic programming of schedules of implementation of industries and the delay in either obtaining or utilising foreign exchange.

The following is a brief mid-term review of the important sectors of the economy during the Third Plan :—

Agricultural Production. Achievements during the first three years of the Plan include increases in the area benefiting from irrigation programmes by 7 million acres, social conservation programmes 4.4 million acres, improved seeds 46 million acres, green manuring 12.3 million acres, plant protection measures 6 million acres and increase in the supply of nitrogenous fertilizers from 2,00,000 tons to 4,50,000 tons.

The production of foodgrains has gone down from 79.7 million tons in 1961-62 (which was lower by about one million tons as compared to the output of 1960-61) to 77.5 million tons in 1962-63. According to present indications, there is likely to be a shortfall of 3-5 million tons in foodgrains and also shortfalls in the production of cotton and oilseeds. But targets of jute and sugarcane production are expected to the achieved, and so also targets of rubber, coffee, tea and tobacco. For setback in agriculture only weather is not blamed. The major instruments of agricultural production, viz., irrigation, fertilizers, improved seeds and implements, etc., have all failed. Shortfalls are expected in respect of fertilisers and the area benefited from major and minor irrigation schemes. There has been a tendency in some States to divert outlays for irrigation from continuing schemes to new schemes with the result that potential is not being created speedily. Maximum benefits have also not been secured from irrigation potential already created due to failure to construct field channels. It was estimated that by the end of 1962-63 nearly 2.7 million acres of irrigation potential remained unutilised. Seed multiplication and distribution programmes have lagged behind due to inadequate financial provision. In the first three years, not even one-third of the 5-year target for better seeds is likely to be achieved. As for improved agricultural implements, the appraisal frankly admits that "progress in the introduction of new implements and equipment has been generally slow. Legislation for land reforms—abolition of intermediaries, tenancy reforms, ceilings on holdings, consolidation of holdings has lagged behind. If the object of these reforms was to develop agriculture that object has not been fulfilled. The village plans have remained 'paper plans.' The inability to mobilise the village community for development work is reflected in the slow progress of the programmes of rural works including minor irrigation, soil conservation, afforestation, drainage, land reclamation, flood protection, and road building. The progress of co-operatives and co-operative farming has also been uneven. There has been little progress in linking credit with marketing and production. "The conclusion is inescapable, therefore, that whatever the responsibility of unfavourable weather for the stagnation, and even fall, in agricultural production in the first two years, the implementation of none of the major programmes for increasing agricultural production is proceeding according to schedule and, if the targets of production for 1965-66 are conditional on the fulfilment of these programmes, there

are likely to be serious shortfalls in agricultural production at the end of the Plan."

The prospects for the current year's crop seem to be good and it is hoped that in the remaining years of the Plan the lag in agricultural production, observed in the past, will be overcome. But it is obvious that no major transformation in the agricultural economy can be achieved through a mere continuation of the present methods and techniques. In all other countries agriculture is regarded as a semi-public sector and receives a great deal of support from the Government. In India it is entirely at the mercy of the private sector.

Industry. No doubt there has been significant growth of producer and basic industries but increase in output of consumer industries has been very small. The target in several industries would be fulfilled, or at any rate considerable advance made, by the end of the Plan period. They include textile machinery, sugar machinery, cement machinery, paper machinery, inorganic heavy chemicals, etc. There would, however, be shortfalls in certain crucial sectors and, as a result, full benefits from the programmes envisaged in the Third Plan would be available only after a year or two and the Fourth Plan would start at a comparatively lower base than originally envisaged.

Of the revised estimate of outlay of Rs. 1,150 crores on industries by the Centre over the five-year period, the outlay in the first three years is estimated at Rs. 556 crores. Thus more than half the investment remains to be done in the last two years. However, investment during the Plan period on public sector programmes is likely to be higher than originally visualized. Projects under the Heavy Engineering Corporation, Hindustan Machine-Tools, Heavy Electricals and the fertilizer plants at Rourkela, Alwaye and Trombay progressed satisfactorily. The three public sector steel plants have attained their targets of 1 million tons of steel each. Work on their expansion programme and on the Bokaro steel project has, however, been considerably delayed.

Fertilizer units at Naharkatiya and Gorakhpur are behind schedule. Projects for the manufacture of ball and roller bearings compressors are in initial stages. The photo-chemical project (Kerala), organic intermediates projects (Maharashtra) and heavy plate and vessel plant (Wardha) have been considerably delayed.

Although in aggregative financial terms, the investment in the private sector has kept pace with Plan expectations, yet progress in several crucial sectors was far from satisfactory, e.g., steel castings and forgings, special steels, aluminium, machine tools and fertilizers. High priority projects faced difficulties in arranging foreign collaboration and even in locally raising funds. The Third Plan envisaged an outlay of Rs. 264 crores on village and small industries. Of this about Rs. 126 crores were expected

to be spent in the first three years so that more than half has to be spent in the last two years 1964-66. They have provided additional wholetime employment to about 2.5 lakh persons and part-time employment for about 6 lakh persons against the targets of 9 lakh and 8 million persons respectively. As for minerals and oils, the estimated investment for the public sector programme has been revised upwards from Rs. 478 crores as given in the Plan to Rs. 662 crores. Of the anticipated outlay, only Rs. 193 crores or about 37% are expected to be spent in the first three years. Investment in oil exploration and production in particular has lagged behind and inevitably a substantial part of the programme will have to be left to the Fourth Plan. Although refining capacity is expected to reach 17.9 million tons by the end of the Plan, full production at the public sector refineries is not expected till the first year of the Fourth Plan. Finished steel output by 1965-66 is likely to be a million tons less than the Plan target of 6.8 million tons. The production target of 8 lakh tons of nitrogenous fertilizers is not likely to be achieved; production in 1965-66 is likely to amount to 5 lakh tons. Coal production in the last year of the Plan is expected to reach 90 million tonnes, as compared to the Plan target of 98.6 lakh tons.

The principal factors that have adversely affected the rate of growth are the shortage of transport, power, fuel and essential raw materials and components. The tendency to satisfy regional and individual claims by housing too many units within a given capacity has led to development of high cost industry. Shortage of foreign exchange is sometimes blamed for non-implementation of some projects. But the brief review given under Progress of the Third Plan, is sufficient to show that faulty and incomplete planning of the projects and delays in implementation, rather than shortage of foreign exchange, were the principal causes of the slow progress of a number of vital public sector projects. The lack of adequate preparatory planning has largely contributed to the delay in the implementation of certain projects for which even foreign credit was available.

Steps have to be taken to avoid delays in implementation and remove impediments to a better utilization of installed capacity. However these steps may be expected to improve the trends in industrial production to some extent, the actual increase in output will be markedly influenced by the increases in the supply of raw materials and components—indigenous as well as imported. Also, many of the newer industries being set up in the economy are technically more complex and the process of adapting them to Indian conditions is often time-consuming.

Power. A small shortfall in the target of power generating capacity is anticipated. The installed capacity at the end of the Third Plan is expected to be 12.5 million kw. against the target of 12.7 million kw. The Plan target of 45 billion kw. hours generation is, however, expected to be achieved and possibly ex-

ceeded as a result of likely improvements in the utilization of planned capacity.

In order to mitigate power shortages in certain areas, some additional power schemes have been accepted in the Plan. Also a few schemes for the Fourth Plan have been accepted for advance action. Special cells have been set up.

At the end of the Second Plan period, the number of electrified villages stood at 26,708. During the first three years of the Third Plan, 12,771 villages were electrified. A further 14,633 villages are expected to be electrified in the remaining two years bringing the total in the Third Plan to 27,404 villages. It is anticipated that all the 500 villages with a population of 5,000 and more will have been electrified by the end of the Third Plan.

Transport. The transport situation, which was difficult when the Plan was formulated, improved considerably in 1962 and the improvement has since been maintained. There has been, in particular, improvement in the coal transport position. Substantial additions have been made in the programmes for railways and roads and estimated expenditure under these heads will now be about Rs. 450 crores higher than the Plan provision.

The total road kilometrage was expected to increase from about 230,400 in 1960-61 to 270,400 in 1965-66. During the first two years of the Plan, the total kilometrage is expected to have reached 248,000.

As regards shipping, the total tonnage has increased from 8.6 lakh GRT in 1960-61 to 10.6 lakh GRT and is expected to reach the figure of 15 lakh GRT in 1965-66, as against the Plan target of 10.9 lakh GRT. Programmes relating to communication services have been augmented substantially in view of the emergency.

Social Services. A steady expansion has been maintained in both general and technical education at all levels, and Plan targets are likely to be exceeded. At the same time, deterioration in standards is reflected by overcrowding of classes and unfavourable teacher-pupil ratio.

Shortage of teachers for technical education and teaching of science is particularly acute. In view of the emergency, additional facilities have been created for technical education and it is expected that the Plan target of annual admission to technical degree courses will be exceeded by 4,000 and to technical diploma courses by about 10,000. The target of students in schools is likely to be exceeded by 4 million. The number of scholarships and fellowships under various programmes has been substantially increased.

Institutional facilities for medical care have substantially increased during the first two years of the Plan and some of the targets may be exceeded. Primary health units are, however, progressing slowly because of the shortage of doctors.

The number of family planning clinics at the end of the Second Plan was 2,136 (1,379 rural and 757 urban). During the first two years of the Third Plan, 209 urban and 660 rural clinics have been added, bringing the total number of clinics to 3,005.

On the whole, however, total impact of the programme, specially in rural areas, has not been appreciable so far.

Export earnings are improving gradually and efforts are being intensified.

Foreign exchange position in the last three years continued to be difficult. Although commitments to the extent of Rs. 2,100 crores are now in sight, additional non-project assistance needed over the next two years amounts to Rs. 450 crores.

It is not desirable to go on relying on foreign aid to the extent it has been done in the past and every effort should be made to reach a reasonable degree of self-reliance by the Fifth Plan.

Following chart indicates the Plan targets, relating to several heads of development and the likely achievement by the end of the Plan period.

1961 66 *Heads of development*	*Plan target estimate*	*Likely achievements*
(Nitrogenous fertilizers consumption)	1,000,000	800,000 tons
Irrigation : major & medium potential	29·47 million acre	23·16 million acre
Utilization	20 77 m. acre	18·60 m. acre
Power : installed capacity	12 69 mkw.	12 50 mkw.
Aluminium	9·2 m tons	7·8 m. tons
Machine tools	80,000 tons	68,000 tons
Sulphuric acid	1,500,000 tons	1,200,000 tons
Cloth · mill made	5,800 m yds	5,500 m. yds.
Handloom and khadi	2,960 m yds	2,750 to 2,810 m. yds.
Minerals : iron ore	30 m. tons	25 m. tons
Coal	98·6 m tons	89·9 m. tons
Railways : freight carried	245·0 m tons	241·3 m. tons
Road Transport : commercial vehicles on roads	365,000	330,000
Shipping tonnage	10·9 lakh grt	15·0 lakh grt.
General Education : students in schools	64·4 million	68·2 million
Engineering and Technology :		
(a) degree level—annual admission	191,00	23,100
(b) diploma level—annual admission	37,400	47,000
Health : hospital beds	240,100	240,100
Doctors in practice or in service	81,000	85,000

In order to implement the Plan effectively the Planning Commission has suggested some steps:—

First, in all important fields, project studies should be

undertaken as part of continuing programmes of work. Early strengthening of technical organisations for project studies and designs is essential for ensuring that changes in cost estimates are kept to the minimum and construction schedules are maintained. This would also facilitate advance action in relation to future projects and make for greater continuity in planning.

Secondly, the question of reducing costs has to be pursued systematically. For this purpose besides high level technical committees for reduction in construction costs at the national and State levels, heads of major projects should be given the assistance of well-equipped cost reduction units.

Thirdly, specific programmes for import substitution should be worked out for co-ordinated use of the available indigenous capacities and utilization of the results of scientific and technical research.

The mid-term appraisal reveals that by and large 'no serious dent' has been made on the problem of unemployment. The unemployment situation has, to some extent, worsened, though a part of the increase on the employment exchange register is due to a greater use of exchanges and, improvement in their efficiency in securing placements.

The Commission expects that additional employment generated during the Plan period will fall short of the original target of 14 millions, pointing out that the number of persons on the registers of employment exchanges had gone up to 24.8 lakhs in March 1963, from 15.6 lakhs for the corresponding period of the previous year.

The note stated that it is particularly disquietening that the number of unemployed among matriculates and those qualified above had gone up from 5.7 lakhs in 1961 to 7.8 lakhs in June 1963.

At the same time, manpower shortages are experienced for professional and technical personnel such as engineers, draughtsmen, chemists, pharmacists, surgeons, physicians, trained teachers and certain categories of craftsmen, including fitters, turners, tool-makers, electricians and the like.

According to the Commission the employment problem would become easier to handle, if it is broken up and analysed by States and if State Governments would, in drawing up their projects for development, pay special attention to the employment aspect. The Commission is now engaged, in collaboration with State Governments, in making studies of the employment problem from the State angle, and it is expected that when these studies are completed, some additional measures may be devised for increasing employment opportunities.

Reviewing price trends in the last three years, the Commission admits that even allowing for the seasonal increases in respect of several food articles, the basic trend in prices remains

upward and has to be taken cognizance of in appraising the current situation.

If one takes the period of nearly two and a half years since the commencement of the Third Plan, the increase in the general price index would work out to about seven per cent. "This is not in itself unduly high, but the problem arises from the fact that this rise is superimposed on the increase that had occurred in the Second Plan period and, more importantly, it derives from rather big increases in the prices of essential consumer articles since the beginning of 1963".

The series of measures taken by the Government to hold the price line, according to the Commission, have had some effect, but the rise of as much as 12.7 per cent in food articles since April 1963 (up to September 28, 1963) "is a matter of continuing concern and further action may become necessary to arrest this trend".

The Commission says that price increases attributable to policy decisions have to be viewed as necessary instruments for enlarging the investible resources of the community and enabling the priority industries to expand in the manner required. "In other words, such policy-oriented price increases have to be distinguished from price rises, which are mainly a reflection of inadequacies in supply or distribution arrangements, and they should be accepted by the community as both inevitable and desirable".

In a meeting in December 1963 of the Informal Consultative Committee of the Ministry of Planning, Mr. Asoka Mehta, the Deputy Chairman of the Planning Commission, emphasised a 'selective approach' to the economy. He said that the Commission might choose certain strategic areas in the country's economy and make intensive efforts in the next two years to push the economy forward. In this manner, the Commission hoped to reach the targets in certain selected sectors which were of crucial importance to the growth of the economy as a whole.

Inaugurating the annual general meeting of the Indian Merchants' Chamber in February 1964, Mr. Asoka Mehta said that **India was a plan behind in economic growth but a plan or two ahead in population growth.** He said a modest standard of consumption could be provided to every segment of our people by 1980 if an economic growth rate of 10 per cent a year was achieved. However, he added, a 7 per cent growth rate would require an increase in the rate of savings and investments of more than 1 per cent of the national income annually for the next 10 years. He said the Planning Commission was aiming at the twin objectives of raising the economic growth rate and of devising measures to ensure that the benefits of development went to the people intended. If the mass of our people were to benefit from planning, inequalities of consumption would have to be levelled out between the richest, one-fifth of our population, and the poorest. Mr. Mehta stressed

that the next 10 years would demand an intensified drive towards development accompanied by certain corrective devices. These were to achieve varying balances of production, doubling agricultural production, raising output of consumer goods to 2½ times the 1961 level, of five-fold output of coal and oil, a six-fold expansion of electricity, cement and chemicals and a 12-time growth of steel and machinery. "Such a scheme of development," he said, "offers great opportunities to the captains of industry."

The economic survey by the Finance Minister for 1964-65 underlined that a stable and continuing framework of policies is indispensable for any process of economic growth. It says that the accent of economic policies has to be:

(a) on immediate improvement in agricultural production;

(b) stimulation of private investment activity in priority areas;

(c) improvement in the performance of public sector projects;

(d) greater monetary and financial restraint;

(e) vigorous promotion of exports and utmost economy in imports not financed by aid or foreign investment; and

(f) improvement in the machinery for the distribution of essential commodities.

Latest (December 1964) estimates indicate that the shortfalls in many vital sectors of the economy at the end of the Third Plan will even exceed the anticipations of the mid-term appraisal.

While the expenditure by the end of 1965-66 is expected to equal the financial outlays contemplated for the Plan period, not more than 20 per cent of the physical targets is likely to be achieved.

The latest reckoning is that the national income by the end of the current Plan will be around Rs. 17,400 crores at 1960-61 price levels as against the original target of Rs. 19,000 crores.

It is now conceded that conspicuous shortfalls will occur in important spheres like agriculture, irrigation, power, industry, mining and transport. In many sectors the shortfalls will be 20% or more.

In the sphere of agriculture, production of foodgrains by the end of the Plan will hardly be around 92 million tons as against the earlier anticipation of 100 million tons. Cotton output will be around 1.34 million bales against 1.765 million bales, that of oilseeds 7.5 million tons against 9.82 million tons and that of nitrogenous fertilizers 650,000 tonnes against one million tonnes originally proposed and subsequently reduced to 800,000 tonnes in the mid-term appraisal.

The target of 6.2 million bales of jute by the end of the Plan

is expected to be achieved while production of sugarcane is expected to be 11 million tonnes against 10 million tonnes contemplated in the Plan.

As regards power generation, the installed capacity is reckoned at 11.7 million kw. against 12.5 million kw. anticipated in the mid-term appraisal, which itself is 0.2 million kw. lower than the original Plan target. Similarly, the generating capacity is estimated at 43,000 million kwh. against 45,000 million kwh.

Additional irrigation potential at the end of the Third Plan is expected to be 20 million acres against 29.5 million acres and 23.3 million acres contemplated in the original Plan and the mid-term appraisal respectively. Gross utilization of irrigation potential will be 16 million acres against 22.8 million acres and 18.6 million acres respectively.

Production of iron ore will be 26 million tonnes against the Plan target of 30 million tonnes, that of coal 76 million tonnes against the mid-term appraisal's 89.9 million tonnes which itself is 8.7 million tonnes less than the original Plan estimate. Production of petroleum products will amount to 12.22 million tonnes against Plan target of 17.25 million tonnes.

In the sphere of consumer goods, production of cement is not likely to exceed 12 million tonnes as against the Plan target of 13 million tonnes, mill-made cotton textiles 5,500 million yards against 5,800 million yards, sugar 3.2 million tonnes against 3.5 million tons, paper and paper boards 650,000 tonnes against 700,000 tonnes, newsprint 28,000 tonnes against 120,000 tonnes, drugs and pharmaceuticals Rs. 175 crores (same as mid-term appraisal), motor cycles and scooters 60,000 against 50,000, bicycles 1.6 million against 2 million and electric fans 2.5 million (same as Plan target).

Production of steel ingots will be 7.4 million tonnes against 9.2 million tonnes, pig iron for sale 1.2 million tonnes against 1.5 million tonnes, alloy tools and special steel 51,000 tonnes against 200,000 tonnes, aluminium 68,000 tonnes against 80,000 tonnes.

As regards machinery manufacturing industries, production of locomotives is estimated at 340 against the Plan target of 360, commercial vehicles 54,000 against 60,000, sugar mills machinery Rs. 14 crores and machine tools Rs. 25 crores against Rs. 30 crores.

In contrast, production of paper machinery is expected to be of Rs. 8 crores against Rs. 6.5 crores, cement machinery Rs. 6 crores against 4.5 crores and cotton textile machinery Rs. 30 crores against Rs. 20 crores.

Freight traffic on the railways is now expected to be only 225 million tonnes against 249 million tonnes. Commercial vehicles on road will now total 335,000 against the Plan target of 365,000.

The Planning Commission has admitted that there are gaps between declared social objectives and the means and instruments envisaged in the Plans to achieve them. It is also admitted that there is a conflict between measures and policies for economic growth and those for enlarging social justice.

The note[1] says that the Five-Year Plan targets have not been fulfilled because the country lacks a "sense of conviction" as well as "concern with speed", two things essential to accomplish great tasks.

The Commission says: "Partly from the compulsions of a democratic society and partly from aspirations and ideals which are natural, our Plans have presented the social objectives of development in broad terms without setting time limits, without specifying in details the means to be employed and without establishing sufficient effective machinery and instruments for achieving or moving rapidly enough towards the declared objectives".

The Commission feels that the savings of the community and the external resources that may be available will not be sufficient to achieve all the objectives. Even with the correct social and economic policies, the period needed will be somewhat longer than the next two Plans. There are heavy odds to be met, not the least being the rate of population growth and the demands of current consumption against capital accumulation

There is hitherto a wide gap between Plan objectives and policies. This has reduced the effectiveness of the Plans without yielding a corresponding advantage in managing current economic problems. The more closely the current policies and Plan objectives are integrated with one another the larger could be the measure of Plan success. The degree of discipline in policy, so essential for effective and continuous administration. has not been available in many areas. This has been the position over the years, both at the national and State levels.

The Commission also observes that the distribution of subjects under the Constitution between the Union and the States does not give the Central Government sufficient power to ensure economic and social development for the country as a whole either on an adequate scale or uniformly. Rigid procedures for the administration of Central assistance, the Commission concedes, inhibit action in the States.

The Commission has spelled out several other shortcomings in planning and implementation. They are: setting of inappropriate targets, inadequate emphasis on management function in relation to planning, insufficient attention to gross productivity and returns, inadequacies in reporting evaluation and appraisal of progress and shortcomings and balancing between projects and schemes requiring long period of gestation.

1. *Some Lessons from The Five-Years Plans.*

Fourth Five-Year Plan

(1965-66—1970-71)

Planning is a continuous process. When one plan ends, the next starts. The Third Five-Year Plan is under way. It shall come to an end in March 1966. Formulation of the Fourth Plan has already been started. The Planning Commission has prepared a draft memorandum on the Fourth Plan containing the size, objectives and strategy of the Plan. This draft memorandum has been broadly approved by the Union Cabinet as well as by National Development Council. We shall explain below the various proposals and recommendations made by the Planning Commission in its draft memorandum.

Size of the Plan. The Planning Commission's memorandum on the Fourth Plan envisages a total outlay of Rs. 21,500 crores with a provision to add another 1,000 crores depending upor favourable resources position. Thus the total size of the Plan ranges from Rs. 21,500 crores to Rs. 22,500 crores. Of this outlay, nearly Rs. 15.500 crores will be in the public sector and nearly Rs. 7,000 crores in the private sector. The total outlay is expected to generate an overall growth rate of 6 to 7 per cent per annum for the economy and not less than 5% in agricultural production.

The sectoral programmes and outlays as drawn up at present amount to Rs. 22,500 crores. The Planning Commission will soon take up the exercise of identifying which of the projects or programmes should be covered under the range of Rs 1,000 crores. Tentatively, it is estimated that half the amount would be on account of projects in power, industry and transport and the other half would be distributed over the remaining sections.

Resource Mobilization. An additional resource mobilization of Rs. 2,500 crores is proposed to be undertaken in the Fourth Plan period, a target which may be raised to Rs. 3,500 crores if the growth rates actually achieved in the initial years of the Plan are sufficiently high. These additional resources will be secured through additional taxation, reduction of tax avoidance and evasion and an adjustment of prices charged by public sector undertakings. For securing financial resources of the order envisaged by the Plan, tax administration must be made most effective and strict fiscal discipline observed by all public authorities and unnecessary or wasteful expenditure avoided.

Deficit financing during the Fourth Plan is limited to the amount of Rs. 500 crores. This amount of deficit financing would be necessary to meet the increase in the demand for the money as a result of higher production and increase in monetisation of the economy during the Plan period.

External assistance for the Fourth Plan is assumed at Rs. 2,500 crores.

Unlike the Third Plan period when the Centre undertook the responsibility of raising the major share of resources by way of additional taxation and the States as a whole lagged behind the target, a bigger tax effort would have to be made by the States in the Fourth Plan period.

Objectives and Strategy. According to the Commission, the objectives and strategy have to be such as to avoid inflation, improve people's consumption standards, reduce economic and social disparities, to provide avenues and opportunities to all who seek them, and accelerate the tempo of development to ensure quicker progress towards self-reliance. The Commission has particularly emphasized the need for increasing the tempo of development without accelerating inflationary trends. The Fourth Plan aims at an overall rate of growth of not less than 6% to make up the leeway and to improve per capita income from Rs. 366 at the end of 1965-66 to Rs. 468 by 1970-71.

For achieving the above objectives, it will be necessary to undertake a variety of organisational and structural changes conducive to efficiency in productive activity, restraint on non-essential consumption and larger resource mobilization in both the public and private sectors for planned investments. The Commission has therefore kept the following factors in view:

(1) For enlarging the income of the rural population, as well as augmenting the supplies of food articles and agricultural raw materials, all possible efforts should be made to ensure a growth rate of not less than five per cent per annum, if possible more, in agricultural production.

(2) In order to realise the objective in (1) above, production of such goods as fertilizers, insecticides and agricultural implements should be given the highest priority in the programme for industrial development.

(3) For enlarging the supplies of essential consumer goods on which additional incomes will be spent, production of articles like textiles, sugar, drugs, kerosene, paper, etc., should be accelerated.

(4) With a view to improving the supply of residential housing production of cement and other construction materials should be augmented.

(5) For ensuring continued growth in metals, chemicals, machine-building, mining, electric power and transport industries, schemes in hand should be completed early and new schemes undertaken.

(6) For the development of human resources, not only should the maximum possible facilities be provided in the social service sector, but these should be suitably re-oriented in the direction of increasing productivity. The aim is to build up a well-balanced structure of rural and urban health centres and hospitals.

(7) The organisation of effort in all these directions should be such as to promote rapid progress towards greater employment and social justice.

(8) To provide adequate opportunities for employment for the new entrants into the labour force, population control will have to be exercised.

Allocation of Outlay. At this stage, sectoral allocations and targets are based on a total outlay of about Rs. 22,500 crores which includes Rs. 1,000 crores to be taken up if the state of the economy is satisfactory during the first half of the Plan. If the working of the economy is satisfactory during the first half of the Fourth Plan, then a tempo of production is built up and larger resources can consequently be mobilized. Investment outlay in the private sector is estimated at about Rs. 7,000 crores.

The pattern of outlays proposed for the Fourth Plan in the public sector is given in the following table. For the purpose of a comparative study, the pattern of outlay of the Third Plan is also given.

Pattern of Outlay in the Public Sector

Item	*Third Plan*		*Fourth Plan*	
	Anticipated Expenditure in the Third Plan	*Distribution Percentage*	*Allocation in the Fourth Plan*	*Distribution Percentage*
Agriculture	1090	13·3	2400	15·4
Irrigation	648	7·9	1000	6·4
Power	1187	14·5	1950	12·4
Small Industry	233	2·8	450	2·9
Organised Industry	1662	20·3	3200	20·5
Transport & Communications	1940	23·6	3000	19·2
Education	557	6·8	1400	9·0
Scientific Research	72	0·9	175	1·1
Health	345	4·2	1090	7·0
Housing & Construction	112	1·4	400	2·6
Welfare of Backward Classes	104	1·3	205	1·3
Social Welfare	...	...	65	0·4
Craftsmen Training and Labour Welfare	...	...	145	0·9
Public Co-operation	250	3·0	15	0·1
Rural Works	...	...	25	0·2
Rehabilitation	...	...	50	0·3
Miscellaneous	...	...	50	0·3
Grand Total	8200	100·0	15620	100·0

It will be seen that a significant increase is envisaged in the Fourth Plan in the proportionate allocations for agriculture and social services (i.e., education, health, etc.). This is in keeping with the objectives of increasing agricultural production and providing for the basic social needs of the masses. Further, there is also a shift in emphasis from schemes with long gestation periods such as major irrigation to quick-yielding programmes such as minor irrigation included under agriculture.

Thus the percentage allocation of the total outlay in the public sector for agriculture has increased from 13.3% in the Third Plan to 15.4% in the Fourth Plan. Education and health has similarly recorded a rise from 11% in the Third Plan to 16% in the Fourth Plan. While there is marginal increase in the allocation for small-scale and organised industry, there is a percentage decrease in the allocation for power and transport. But outlay allotted to power and transport is quite large in absolute terms as compared with the Third Plan provision. Therefore no imbalance is expected to be created as a result of what has been proposed for power and transport sectors. Provision for transport in the Fourth Plan takes account of the fact that in the Third Plan allocations for transport were substantially raised and the rail transport system will have some reserve capacity at the beginning of the Fourth Plan. Their feasibility in terms of implementation has also been taken into account.

The small allocation of Rs. 25 crores for rural works is in the nature of a token provision at this stage. A firm figure will be known only after State plans have been formulated and a view taken of the size of the residual problem of unemployment in rural areas which may call for a supplementary rural works programme.

The broad implications of the programme are an annual growth rate of not less than 5% in agriculture, 11% in organised industry, 8% each in small industry, communications, railways and organised banking and insurance and 6.5% each in other commerce and transport and services. This should give an overall rate of growth of around 6.5%.

Targets of Production and Development

The selected targets of production and development are based on the assumption of a Plan outlay of Rs. 22,600 crores. Production of foodgrains is proposed to be stepped up to 116.40 million tons from 92 million tons in 1965-66, cotton from 6.3 to 8.5 million bales and sugarcane from 11.0 million tonnes to 13.5 million tonnes. Production of oilseeds is expected to be increased to 9.45 million tonnes and of jute to 7.55 million bales.

From major and medium irrigation projects, irrigation facilities would be provided for an additional area of 13 million acres. Under the power programmes, installed generating capacity will be almost doubled from 11.7 mkw. to 22 mkw. Industrial production will be considerably expanded especially in

the fields of metals, chemical fertilizers, agricultural machinery, consumers' goods, machinery and intermediate petroleum refining. Productive capacity of steel ingots will go up from 8.9 million tons in 1965-66 to 16.5 million tons at the end of the Fourth Plan; pig iron from 1.2 million tons to 4 million tons and aluminium from 68 thousand tons to 240 thousand tons. Capacity for the production of nitrogenous fertilizers will increase nearly four-fold; that of newsprint over five-fold, and those of bicycles, electric fans and cement about two-fold.

Railways will carry 50% more freight in 1970-71 as compared with 1965-66, the number of commercial vehicles on road will be almost doubled. Under communications 7 lakhs telephone connections would be provided. Schooling facilities will expand considerably for all age-groups and the admission capacity for the engineering and technology courses at the degree level will be augmented to train 68,600 students in 1970-71.

The admission capacity for craftsmen to be trained in the Fourth Plan will increase from 100,000 to over 200,000. Medical facilities are also proposed to be substantially enlarged.

The Commission's memorandum emphasizes the fact that the projections and exercises for the Fourth Plan can be realistic only if the prices are kept on an even keel. In order to meet this requirement, therefore, there will be emphasis in the Fourth Plan on quick-yielding schemes, price regulatory measures and on the administrative steps implied in such measures. Disciplines would be enforced on expenditure programmes.

Chapter XXXVII

Problems of Development and Planning

We discuss below a few problems connected with economic development in India

The Problem of Slow Growth

We started our development programme in 1950-51 when our First Five-Year Plan was launched. A review of the successive Five-Year Plans shows that the rate of growth has been distressingly small. The rate of growth was 3.4% in the First Plan, and 4.1% in 1962-63 respectively in the first two years of the Third Plan. About 2% growth rate in the initial years of the Third Plan, strongly contrasting with 7.5% in 1960-61, the last year of the Second Plan, is quite disturbing indeed. Are we going up or sliding down? The rate of growth achieved by us has caused universal disappointment.

What is the economic situation that we find ourselves placed in? It is remarked that we are a plan or two behind in respect of our requirements and a plan or two ahead in respect of our population. While the total additional income earned during the ten-year period (1950-51 to 1960-61) was Rs. 19,000 crores, the population increased at the rate of seven or eight million persons per year. About 73% of the additional income was available for increase in private consumption. Out of this 45% was, however, required to provide for the population added during the decade. Thus the bulk of the additional income during the decade had to be used to compensate for the growth in population and nearly a quarter of the additional income was available for the net increase in per capita consumption. It is obvious, therefore, that instead of getting airborne, our economy has been able just to keep itself afloat.

All the same, it must be admitted that the Indian economy is no longer stagnant. Ten years of economic planning have initiated some important structural changes and have led to an

appreciable increase in production especially in the organised sector. Only the speed at which the economy is moving is painfully slow. What are the factors which are retarding its rapid growth?

There are several types of factors which are holding back our economic progress. These factors may be classified as natural, economic, political and social. We shall discuss their impact one by one.

Natural Factors

Of the natural factors which are obstructing economic growth in India, we might mention its tropical and sub-tropical climate making economic activity unduly hard both on account of burning heat in summer and severe cold in winter, nature of the soil some of which is all sand or all mountains, the nature of the terrain making construction of road or rail track difficult and expensive, continental dimensions making transport and communications a hazardous, prolonged and an expensive affair, seasonal variations interfering with one type of production or another, e.g., with the duration of crushing season in the case of sugar industry, and so on.

But of all these the most important is the nature of the rainfall which most directly and vitally affects agricultural production. Scarcity of rainfall or too much of it both play havoc with our rural economy. If there is a drought, the crops must wither away and in case of heavy rainfall causing floods the crops must be washed away. Truly, our agriculture is a gamble in the monsoons. If the rainfall is timely, adequate and well-spread, we may be rewarded with a bumper crop. Successive years of favourable rainfall during the First Plan made our agriculture take a leap forward, whereas unfavourable rain and floods in the Second and Third Plans have resulted in shortages. The slow rate of growth in 1961-62 and 1962-63 is all due to the agricultural sector lagging behind. Agriculture has acted as a drag. This shows the vital influence of the natural factors in the growth of Indian economy. If only we could somehow make agriculture in India move forward, rapid economic progress is assured.

Economic Factors

For the slow growth rate of the Indian economy, economic factors are no less responsible. Among the economic factors we would mention inadequate transport and communication system (shortage of wagons for example) creating bottlenecks and interfering with quick movement of goods, under-developed banking system involving high cost of credit, lack of technical know-how and an adequate body of trained personnel, lack of managerial talent, entrepreneurial ability and skilled labour, and so on.

The most important of the economic factors retarding our economic growth is the shortage of capital. Whether it is industry or agriculture suitable capital equipment is absolutely

essential to carry it on. The bulk of the capital we have, it is invested in real estate or jewellery or kept in hoards. Consequently, it is not available for investment for economic development.

We are caught up in a vicious circle of poverty. "It implies a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a state of poverty. A country is poor because it is poor". (Nurkse). Capital formation is the crux of the problem. The rate of capital formation in India is hardly 10% whereas 15-20% is considered to be the rate essential for bringing about economic development at a reasonable rate. Being deficit in domestic capital, we have to rely on external aid for the execution of our planned projects and foreign aid is not easily and always available and in the desired quantity. During the last few years India has been faced with acute shortage of foreign exchange which has held up or delayed several projects. Shortage of capital combined with the lack of entrepreneurial talent and technical know-how are some of the major factors impeding our economic growth.

Political Factors

India is a democracy and we are pledged to planning under a democratic framework. This necessarily involves delays and compromises. Besides, there are political pulls exercised in the location of industrial units which may turn out to be irrational. Political workers are busy vote-catching for the next election rather than in solid economic work. Thus economic regeneration of the country is thrown in the background and policies are pursued for their own sake. Few political leaders throw their might on the side of economic development. With less popular zeal and enthusiasm at its back economic progress cannot go on with speed. Only when the various elements in the national life go all out can we attain a maximum rate of growth.

Our leaders were first fighting an alien rule which was largely responsible for our underdevelopment and now the leaders are fighting among themselves jockeying for positions. Only a very secondary position is given in their thoughts to the economic progress of the country. For selfish reasons the leaders will not hesitate in exploiting situations to provoke strikes which are quite common in our country and which necessarily hamper economic activity. With shifting political leadership or leadership motivated by selfish interests, entrepreneurs cannot be sure about economic policy.

Uncertain policy makes a bad climate for long-term investment. Fear of nationalisation is also always hanging over head like Damocles' sword. Thus politics vitiate the very climate for economic development. Lack of clean and efficient administration must also share the blame. With universal and deep-rooted corruption when everybody is trying to enrich himself, who will think of the country and its progress?

Social Factors

Like other under-developed countries, in India too the social structure is inimical to economic development. The main features of Indian society—caste system, joint family system, its peculiar laws of inheritance—are all prejudicial to economic development each in its own way. For example, the joint family system by thinly spreading the family earnings over a large number of the members of the family is a positive discouragement to savings. The extravagance at social ceremonies and the social custom of giving a dowry on a daughter's marriage consume the whole life's savings and militate against capital-formation which is so very necessary for accelerating economic development.

Defective Planning and Implementation. The slow economic growth in India is to no small measure due to defective planning. Our plans are rather overambitious. We try to do too many things at the same time and try to achieve too high targets within a short time. Our scarce resources are thus thinly spread over too many objectives and we discover at the end that selective approach would have been more fruitful. It might have been better perhaps to choose certain strategic areas for development. Agriculture did not get as much priority in the Third Plan as it deserved. Sometimes we give priority to producer goods industries and at others, as in the Fourth Plan. we think consumer goods industries deserve greater industry, and so on. Inexperience in planning and the lack of suitable machinery for execution and evaluation of projects are also responsible for slow economic growth.

These are a few factors responsible for slow rate of economic growth of the country, prominent among them being lack of adequate irrigation facilities, too little or too much rainfall, shortage of capital, transport bottlenecks, defective economic policy, defective planning and its implementation.

Problem of Deficit Financing

It is not possible to give a precise definition of deficit financing applicable to all countries at all times. The definitions of deficit financing adopted in different countries and by different economists vary widely with each other. The definition of deficit financing adopted by the Planning Commission in India is that **it is equal to the net increase in the purchasing power of the economy arising out of the budgetary operations of the government.** Deficit financing is said to have been practiced whenever government expenditure exceeds the receipts such as taxes, fees, surpluses from public undertaking, borrowings from the public. Such an excess of government expenditure can be financed either by drawing down the cash balances of the government (held in the Reserve Bank of India or in State Treasuries) or by borrowings from the Reserve Bank of India. Both these methods of financing the deficit would have the effect of expanding money supply held by

the public. Thus the Indian definition of deficit financing is that it is that part of government expenditure which is met either by drawing down the cash balances of the government or by resorting to borrowing from the Reserve Bank of India. This definition of deficit financing therefore identifies it with that part of government expenditure **the finance of which leads to a net increase in money supply.** In this connexion it may be pointed out that when the Union Government borrows from the Reserve Bank, then the Reserve Bank which is a note-issuing authority, simply issues more notes and gives them to the government against rupee securities of the government. Thus **deficit financing in the ultimate analysis means issuing of more notes.** As a result, currency in circulation expands.

Deficit Financing and Economic Development

What scope is therefore for deficit financing to be used as an instrument of economic development in the underdeveloped countries like India? The problem in these countries is to accelerate the rate of economic development so as to raise the standards of living of the people. Rapid economic development can be achieved only by stepping up the rate of investment or capital formation. The government in India has launched Five-Year Plans to quicken the rate of investment and economic growth.

But additional financial resources are required to increase the rate of investment. The additional resources, in the absence of sufficient foreign aid, can come out only through increased domestic savings and these being channelised along productive lines. One way of increasing domestic savings is through additional voluntary efforts on the part of the people These savings are then utilized through national small savings schemes to add to the resources available to the government. But in a country where a majority of the people are living on the subsistence level, the margin between income and consumption is very low so that voluntary savings, howsoever welcome, cannot by themselves provide sufficient resources for development. The government may also attempt to increase the volume of resources by additional taxes. During the last few years, taxes have been increasing in our country to find resources for development schemes. Yet because of extreme poverty of the great mass of the people, additional taxation beyond a point raises difficult problems, both economic and political. Therefore, in their anxiety to implement development schemes, the governments are compelled to resort to deficit financing.

The Planning Commission have given due place to deficit financing in the financing of our Plans. In the First Five-Year Plan, of the total actual Plan outlay of Rs. 1,960 crores in the public sector, about 20% of the outlay worth Rs. 420 crores was financed through deficit financing. In the Second Five-Year Plan, out of the total outlay in the public sector of Rs. 4,800 crores, one-fourth, i.e., Rs. 1,200 crores, was to be raised through

deficit financing. The actual amount of deficit financing during the Second Plan was however Rs. 948 crores out of the total actual outlay of Rs. 4,600 crores. The provision for deficit financing in the Third Plan is Rs. 550 crores.

Serious efforts should be made to increase the level of national production along with the increase in money supply.

The deficit financing during the First Five-Year Plan did not do any mischief. There was more than proportionate increase in agricultural production, accompanied by more favourable balance of payments and higher foreign exchange reserves. Deficit financing did not exert any inflationary pressures; on the other hand, the wholesale price index went down from 100 in 1952-53 to 99.2 in 1955-56. But real dose of deficit financing came in the Second Plan. There was deficit financing to the tune of Rs. 948 crores, nearly double of what it was in the First Plan. It had a positively inflationary effect. The wholesale price index shot up from 99.2 to 127.5 between 1956-57 and 1960-61. The working class cost of living went up to 130 in March 1963 (base 1949=100). The wholesale price index (base 1952-53=100) for all commodities rose to 131.4 and for food articles 138.8 by May 4, 1963. Scared by inflationary forces, India reduced deficit financing in the Third Plan to Rs. 550 crores. During 1961-62 Rs. 121.30 crores were secured from deficit finance and Rs. 88.84 crores in 1962-63 (B.E.). Deficit financing proposed in 1963-64 (B.E.) was Rs. 151 crores.

Deficit Financing and Inflation

Since deficit financing involves the expansion of money supply with the public, it has inflationary potential. But if the supply of output, especially that of consumer goods, is increasing when deficit financing is being done, there is no danger of inflation. Therefore it should not be presumed that deficit financing necessarily leads to inflation. Deficit financing generates inflationary pressures only when the supply of output cannot be increased so as to match the new money which becomes available through deficit financing.

Deficit financing practiced during the depression in advanced countries does not generate inflationary pressures because of the elastic nature of the supply curves of output. Additional government expenditure leads to an increase in effective demand, depending upon the magnitude of multiplier. Similarly, when supply of output can be increased to match additional demand, there are no inflationary pressures. In advanced countries, during the depression, there is lot of excess capacity in the system so that an increase in output presents no difficult problems.

The situation in under-developed countries is however different. Here an increase in investment does create additional demand but a corresponding increase in the supply of output cannot be taken for granted. Firstly, an under-developed country suffers from the dearth of capital and there is no excess capacity to be utilized for

creating additional supply of consumer goods. Besides, the basic wage goods industry, i.e., agriculture, suffers from an inelastic supply curve in the short run. The farmer's ability to increase his output is very limited. His holding is a tiny one and often lies scattered all over the village, he lacks resources to buy more and better seeds and manures, irrigation facilities are lacking so that even with the best will in the world, unaided by any outside agency, the farmer's efforts to increase his output may not bear fruit. In the absence of elastic supply of consumer goods, a development plan carries with it a great inflationary bias.

In the early stages of development, the inflationary danger is very real indeed. This is because of the urgent need to invest large sums in long-term projects such as building of big dams, steel plants, machine-making industry and other types of heavy and basic industries as well as in the development of transport and communication system. Investment in such long-term projects does create additional demand, but these projects do not add to the supply of consumer goods in the short run. In the short run prices generally shoot up under the pressure of excessive demand for consumer goods. And once inflationary spiral starts operating, it is difficult to control it.

Deficit Financing within Limits is Very Useful

From above it should not be gathered that every and any amount of deficit financing is harmful. Deficit financing of a reasonable amount is very useful. A reasonable dose of deficit financing helps the development of the economy. In an underdeveloped country like India, a huge amount of natural and human resources are lying unutilized and under-utilized. With the help of deficit financing these unutilized and under-utilized resources can be employed for productive purposes. If deficit financing is used to invest in those projects or schemes such as small irrigation works, land reclamation schemes, which yield quick results, then the danger of inflation is not there. These quick-yielding projects will increase the supply of consumer goods in the immediate period and will therefore prevent the creation of inflationary pressures. Further, if under the development plans, serious efforts are made by the government to help the farmers to increase agricultural production by providing them with superior seeds, fertilizers and irrigation facilities in time and in adequate quantities, then the supply of agricultural goods can be made elastic. To the extent we are able to increase agricultural production, to that extent we can safely do deficit financing. Since the **income elasticity of demand for foodgrains is very high** in India, the **incomes generated by the investment** outlay under the development plans are mostly directed to the purchase of foodgrains. If we succeed in raising agricultural production, then a reasonable dose of deficit financing will not result in inflation.

Further, as the economy develops, the monetary sector expands. In other words, as the economy grows, it becomes more

monetized. As a result of the expansion of monetary sector, needs for money increase. If new money is created to match this extra needs for money, then that will not prove inflationary.

Moreover, with the general growth of the economy under plans, the output of goods and services rises. There is no harm in creating new money which will match this additional output made possible by the growth of economy. It is worth mentioning here that the danger of deficit financing leading to inflation is there in the short run. In the long run, productive investments made under the plans will increase the productive capacity and will therefore bear fruit in the form of greater supply of consumer goods. Thus inflation created by productive investment in the short run is self-destructive in the long run. But there is real danger of short-run inflation becoming self-cumulative rather than self-destructive. Therefore the generation of inflationary pressures is required to be prevented in the short run. If deficit financing is done to make investments in quick-yielding projects in both agriculture and industry, then the danger of inflation can be avoided. For instance, if new money is created to invest in quick-yielding schemes like building of wells, tube-wells, tanks and conservation of soil to get quick returns, it will not prove inflationary.

Thus within limits, deficit financing is not only desirable but essential as well. It proves inflationary only when safe limit is crossed. Deficit financing can serve as a useful instrument of economic development if a right dose of it is taken considering the growth of the national production, especially that of food-grains and if it is used for financing those schemes or projects which yield quick returns.

Developing countries in their bid to raise the standards of living of their people through development plans have often found themselves in the grip of inflation. Indian economy is no exception to this. In recent years, we are experiencing a serious type of inflation. Prices have risen so high that some people have begun doubting the very desirability of development planning. The nature of inflation in India is however quite different from that found in advanced countries. In advanced countries true inflation starts after the level of full employment is attained. But in India huge unemployment and inflation exist together. In other words, in India serious type of inflation is in evidence long before the level of full-employment is reached.

In order to get the economy out of depression, governments in advanced countries take various steps to increase the level of investment. The additional investment expenditure leads to an increase in effective demand depending upon the magnitude of the multiplier. But this increase in investment and effective demand does not generate serious inflationary pressures because of the elastic nature of the supply curve of output. Instead, increase in investment and effective demand helps a great deal in

removing depression and unemployment which are caused by the lack of effective demand.

The situation in India is however different. Here an increase in investment does create additional demand but a corresponding increase in the supply of output cannot be taken for granted. Unemployment in India is not due to the lack of effective demand but due to the dearth of real capital. But increase in the rate of capital formation requires stepping up the level of investment. Now under the Five-Year Plans we are making huge investment expenditure to increase the rate of capital formation and thus to obtain rapid economic growth. The huge investment expenditure has led to a sharp increase in aggregate demand for consumer goods, especially for foodgrains. **Since the supply of consumer goods has not been increased sufficiently to match the increase in demand for them, this has led to inflationary rise in prices.**

It is worth mentioning that it is the food prices which first started rising rapidly. The rise in food prices has been then followed by the rise in the prices of other consumer goods. The question now arises: Why the food prices first start rising rapidly. This is so because the vast majority of the people being under-nourished, their **income elasticity of demand for food is very high.** As a result, a greater part of the increase in demand generated by the investment expenditure made under the Five-Year Plans is directed to the foodgrains such as wheat and rice. Since the production of foodgrains has not been adequately increased due to the tiny size of farms, inefficient techniques of cultivation and lack of irrigation facilities, superior seeds and fertilizers, this has resulted in rising prices of foodgrains. In India which is still predominantly agricultural, the prices of agricultural commodities, especially of foodgrains, hold the key position in the price structure of the country. Any distortion in the price structure leads to a distortion in the whole price structure.

Another factor which has been responsible for increasing the pressure of demand for consumer goods is the **rapid increase in population.** Indian population is increasing at the rate of about 2.5% annually—an explosive rate of growth. Thus during the last four years, while population of India has increased by 9%, food production has remained practically stagnant. This explosive rate of population growth has greatly increased the pressure on demand for consumer goods resulting in inflationary rise in prices.

Prices have shown an upward tendency since the beginning of the Second Five-Year Plan. But in the recent years there have been sharp rises in prices. While there was 30% rise in the general price level under the Second Plan, there has been a rise of 44.4% in food prices during the three years and a half of the Third Plan. Since the beginning of the Second Five-Year Plan, **there has been accelerated increase in the supply of money**

brought about by deficit financing by the government as well as credit expansion by the banks. The sharp increase in the supply of money has been the result of investment (or developmental) expenditure and non-developmental expenditure both in the public sector and private sector. Since 1960-61 money supply has increased by over 30% and in the fifteen months, between the end of March 1963 and end of June 1964, money supply with public increased by about Rs. 480 crores or by about 14.5%. On the demand side there is pressure from currency as well as of bank credit.

Another factor responsible for the phenomenon of run-away prices is the considerable rise in plan and non-plan expenditures both at the Centre and in the States. Between 1961-62 and 1964-65 expenditure on revenue account has gone up by Rs. 950 crores. Of this, over Rs. 550 crores is accounted for by defence expenditure. Plan expenditure on both revenue and capital account has gone up during the same period.

Now, this rapid increase in the supply of money and considerable rise in the plan and non-plan expenditure has brought about the increase in the demand for consumer goods, especially foodgrains. The fact that the supply of consumer goods, especially foodgrains, has not been adequately increased, the prices have gone up under the pressure of demand.

Another important factor which has aggravated the price situation is the **hoarding and profiteering by both the traders and producers.** Huge stocks of foodgrains have been hoarded by the traders in the recent years. This has reduced the available supplies in the market, which have accelerated the inflationary trends. Hoardings of huge stocks of foodgrains have been financed by the bank credit advanced to the traders as well as by the large black money they possess. Further, it has been observed that producers, especially big farmers and landlords, have also hoarded foodgrains in enormous quantity in anticipation of higher prices. The phenomenon of hoarding and profiteering has assumed serious proportions since the year 1962.

Balance of Payments Problem

It is the usual experience of all developing economies to have serious difficulties in their balance of payments. There is nothing novel or unexpected in this. This will be clear if we analyse the requirements of development and some of its consequences.

The balance of payments has two aspects: the import aspect and the export aspect. On the imports side, we can easily see that in the initial stages of development, the import bill must rapidly mount up from year to year. The country which has chosen the road to rapid economic development must be prepared to face heavy imports. What is being attempted is the conversion of a predominantly agrarian economy into a highly

industrialised economy within a reasonable span of time. For this purpose, the country needs machinery, equipment and industrial raw materials. It must also import technical know-how. All these things an under-developed country lacks and for them it must rely on foreign countries. An under-developed country also lacks capital. It has therefore to borrow capital from abroad. The loans have to be repaid and it has to meet yearly liabilities arising out of interest payments. All these developments tilt the balance of payments against the developing economy.

Now let us see the export side. A developing country must build up of course an export surplus to pay for constantly pouring imports. But in the early stages of development, it is unable to export much. It has yet to build up export industries. Most of the domestically produced materials are absorbed in the home manufactures. Nor can it spare capital for investment abroad because under-developed countries suffer from serious capital deficiency. The country is not advanced enough to export services of any type. Most of the goods and services produced at home are absorbed at home in a rising tempo of economic development.

The rising tempo of development expenditure fed by deficit financing unleashes the inflationary forces so that the country is good for selling to and not a good country to buy from. Inflation therefore adversely affects the balance of payments position.

Rising imports and lagging behind or stagnant exports lead to the widening of the deficit on current account and there is a widening gap on the capital account too. The balance of payments becomes increasingly unfavourable from year to year as development programme proceeds apace.

How is this situation met? It is the generosity of foreign friendly countries which comes to the rescue. Foreign aid in the form of loans is sought and obtained. In addition foreign exchange reserves are drawn upon. International organisations like the I.M.F. also come forward to help the country out of the balance of payments difficulties.

But no country can go on borrowing from abroad indefinitely, if it is to retain its credit-worthiness in international financial circles. Foreign reserves are not a bottomless pool. Ultimately the country must stand on its own legs and move to a stage called self-sustained growth. At this stage, it must find out of its resources all the means for economic development. It should be able to do without foreign aid. It must meet its import bill out of its own export earnings. The export earnings should be sufficient to cover not only development imports but also maintenance imports. It is neither desirable nor feasible to cut down imports (except the non-essential ones) without hampering economic development. The development targets must be achieved and essential imports must continue to flow. Hence vigorous and

determined drive in the direction of export promotion is essential. It is the only sane course to adopt.

Economic development in India illustrates the effect of economic development on balance of payments position. India has been facing serious difficulties in regard to her balance of payments since the beginning of Second Five-Year Plan. Unable to produce herself all the machinery, equipment and materials, it had to look for foreign supplies. In the process of financing these imports, the country was faced with large deficits in balance of payments. The First Five-Year Plan, however, was a pleasant surprise. As against original estimate of the average annual deficit of Rs. 180—200 crores, the actual total deficit for the five-year period was only Rs. 126 crores. Instead of drawing down of Rs. 290 crores of sterling balances, envisaged in the Plan, the actual drafts was Rs. 138 crores only. A series of bumper crops contributed to this happy result. Also, the process of economic development had hardly begun. Things assumed their true complexion since the beginning of the Second Plan. During the Second Plan, imports rose from Rs. 761 crores in 1955-56 to Rs. 1,100 crores in 1960-61, whereas exports were of the value of Rs. 640 crores in 1955-56 and Rs. 630.5 crores in 1960-61. The current account (net) deficit in 1961-62 was Rs. 303 crores and for 1962-63 Rs. 334 crores nearly.

In view of our stagnant export receipts we have been increasingly seeking and getting foreign aid to meet our inflated import bill. At the end of March 1964 our total foreign debt amounted to Rs. 1,769.54 crores. Thus foreign loans have to be raised not only to finance the purchase of machinery, equipment and materials required for the execution of the Third Plan estimated at Rs. 2,100 crores but also to service the existing debt obligations amounting to nearly Rs. 500 crores. We have nearly finished all our sterling balances and we have been a habitual borrower from the I.M.F. At the beginning of the First Plan, the foreign assets of the Reserve Bank amounted to Rs. 884 crores. They declined by Rs. 138 crores in the First Plan and by Rs. 604 crores in the Second Plan. We have been losing these reserves at the rate of about Rs. 71 crores annually.

It is realised that an export surplus must be built up to pay for our imports. Vigorous export drive is under way. Efforts are being made not only to boost our traditional exports like tea, jute goods, textiles, tobacco, vegetable oils, etc., but also to diversify our exports by exporting new commodities and to new markets. The aim is to reach a self-sustained growth by 1970. But this will be possible only if we are able to raise our annual exports to the level of Rs. 1,500 crores nearly. We have set up institutions like Exports Risks Insurance Corporation, Directorate of Export Promotion, Department of International Trade and various export promotion councils. The Export Credit and Guarantee Corporation was established in January 1964. Several fiscal incentives have been given like drawbacks of customs

and excise duties paid on goods exported abroad and incentives like import entitlement against actual exports. There is no doubt that in course of time these efforts will bear fruit. The year 1962-63 registered the highest rise in exports recorded in any single year.

Democratic Socialism

"Philosophy of socialism has gradually permeated the entire structure of the society the world over, and almost the only points in dispute are the pace and the methods of advance to its full realisation. India will have to go that way, too, if she seeks to end her poverty and inequality, though she may evolve her own methods and may adapt the ideal to the genius of their race." This was said by Pt. Jawaharlal Nehru in his presidential address to the Indian National Congress in 1929. Pt. Nehru started guiding the destinies of the Indian nation in 1947 on the attainment of Independence. We could naturally expect the process of socialism to start then. According to Industrial Resolution of 1948, India decided to set up a mixed economy wherein an ever expanding public sector would play a vital role. In accordance with the Directive Principles of our Constitution, the Indian Parliament in 1954 decided to establish in the country a socialistic pattern of society. In 1963 at Jaipur session of the All India Congress Committee, the Congress, the ruling party, pledged itself to "Democratic Socialism", a structure of society based on democracy, dignity of the human individual and economic and social justice. The concept of socialism is not alien to Indian thought, outlook and culture. Indian poets, philosophers, thinkers and spiritual leaders have always envisaged a social order based on equality of man and free from poverty and hunger. We have now a democratic constitution but we have also been keen on giving it a socialist tinge. Socialism is the inevitable outcome of democracy. Political democracy has no meaning, if it does not embrace economic democracy and economic democracy is nothing but socialism. Similarly, socialism without democracy is meaningless. Hence democratic socialism.

Meaning and Content. Perhaps no word has exercised the modern world as 'socialism' has and it is often said that there are as many types of socialism as there are socialists. But the broad meaning of socialism is fairly clear and about which there is a fair degree of unanimity. Socialism refers to an economic order in which there is more or less economic equality and equality of opportunity for all, that is, where inequalities of income and economic power have been reduced to the minimum. In such an economic order the interests of the community as a whole take precedence over the interest of the individual and of groups, the guiding principle determining economic activity being social gain rather than private profit. All citizens must enjoy a minimum measure of economic welfare. But our socialism has to be democratic, so that the human personality of every individual has the fullest expression or development. In other words, we

want to have a socialistic order based on economic freedom, i.e., freedom of enterprise, freedom of contract and the free right of the individual to own and use property. There should be a happy blend of democracy and socialism.

What are the essentials of democratic socialism? We again refer to the Directive Principles laid down in the Indian Constitution. In consonance with these principles, a society has to be created, gradually of course, in which all have equal opportunities, all have a right to be provided with work, where the disparities in income and wealth have been reduced to the minimum, where there is no exploitation of the economically weaker sections of the people by the stronger, and where social and political justice are accorded to all on the basis of equality. It is to eliminate all disparities, privileges and exploitation. What is more important is that this type of social order is to be created through a democratic process by the freely expressed opinions of the people's representatives chosen on the basis of universal adult franchise. Further, the society must continue to function on a democratic base Democratic way of life must remain securely established. Democracy is as vital as economic welfare. Socialism, which seeks to establish a happy human society free from exploitation in any form and free from all fear, will have no meaning if it is not attained and maintained by democratic method. Thus all forms of dictatorship are ruled out. This in short is the content of democratic socialism. True socialism cannot be built upon the rubble of poverty and hunger. We must therefore work for economic abundance, though not affluence. To that end there must be the fullest mobilisation and efficient use of the country's human and material resources. Thus democratic socialism insists on democratic processes ensuring economic justice, progressive reduction of inequalities, a basic minimum standard of life, full employment and social security. It provides an alternative to the acquisitive economy of private capitalism and the regimentation of the totalitarian state. This is democracy plus socialism.

Thus the main ingredients of democratic socialism are:—

(i) Democratically functioning government machinery in the political as well as economic sphere;

(ii) equality of opportunity and removal of disabilities arising from social (caste) and economic backwardness;

(iii) equalities of income and wealth doing away with monopolies and other forms of uneven industrial and land ownership;

(iv) a high level of economic development;

(v) public ownership of certain key industries and financial and commercial industries but avoiding extensive state capitalism which results in concentration of political and economic power in the same authorities, for that

would be Marxian socialism and not democratic socialism;

(vi) a comprehensive scheme of social security, organisation of economic life conforming to the principles of justice and guaranteeing a minimum standard of living to all;

(vii) planned central direction as well as decentralisation of political and economic power compatible with the security of state; and

(viii) increasing association of labour with management of industry as co-sharers in profits.

Steps Taken So Far. Let us see now whether the talk of achieving socialist pattern or democratic socialism is a mere tall talk, as the opponents of the Indian National Congress generally say, or whether some concrete steps have already been taken in the direction of achieving the goal. Are we serious about it or are we simply dogging socialism? From the 'little done and vast undone' or judging how very very remote, almost invisible, the goal still is, one might exclaim in impatience that 'socialist pattern' or 'democratic socialism' are only catch-words intended to confound the unwary Indian citizen. This would, however, be too harsh a verdict. One cannot completely shut one's eyes to some tangible measures which have been taken in this connection.

We have already set up a democratic structure and given ourselves a democratic constitution—guaranteeing to all citizens justice—social, economic and political—liberty of thought, expression, belief, faith and worship and equality of status and opportunity. The Directive Principles of the Constitution provide for removal of disparities in income and wealth and elimination of social disabilities, the dignity of the individual and unity of the nation. We have thus embodied in our democratic constitution all the ingredients of a Socialist State. We have also taken some positive steps to translate the Directive Principles into practice.

Among the measures already adopted for the achievement of democratic socialism in the country, we might mention the following:

(i) Zamindari system has been abolished and all types of intermediary rights almost completely eliminated so that the tiller of the soil has been put into direct relation with the State;

(ii) agrarian serfdom has also been made illegal and steps have been taken to provide land for the landless, thus eliminating the rural 'have-nots';

(iii) while small holdings are being consolidated into economic holdings, ceilings have been put on bigger existing holdings and also on future acquisitions so that the gulf between the big and the small is narrowed down;

(iv) tenancy reforms have been introduced which guarantee security of tenure and fair rent along with several other facilities;

(v) minimum wages have been fixed for agricultural labour;

(vi) co-operative farming is being provided special facilities. Thus our agricultural policy is in keeping with the socialist ideology;

(vii) in the industrial sphere, we have an ever-expanding public sector. Big and heavy industries have been reserved for the public sector; small-scale and cottage industries are being given special support to build up a decentralised economy; industrial co-operatives have been given a definite place;

(viii) Employees' Provident Fund and Employees' State Insurance Scheme provide a measure of social security to industrial labour, though they are only a beginning of social security in India;

(ix) in the social sphere, untouchability has been abolished and imposition of any disabilities on account of untouchability has been made a punishable offence. The Constitution expressly prohibits any discrimination against any citizen on grounds of religion, race, caste or colour and of access to public shops and restaurants and places of public entertainment of any kind or of use of public wells, tanks, bathing ghats, roads and other places of public resort;

(x) disparities of income are being reduced through steeply progressive taxes: income tax, super tax, surcharge on income tax and additional surcharge thereon, wealth tax, expenditure tax, death duties, etc. The inequalities of income and wealth have not been removed altogether nor is it a practical proposition. In no socialist state has it been possible to obliterate inequalities altogether;

(xi) in the sphere of commerce and transport, Reserve Bank has been nationalised. State Bank has been created by nationalising Imperial Bank of India; all life insurance companies have been taken over by the State and there is a clamour for nationalising all the banks. The entire railway system is owned by the State. Motor transport is being nationalised in the various States. Ship-building and aircraft manufacture is also under the aegis of state enterprise;

(xii) another socialistic measure is that the Constitution has been amended to facilitate further nationalisation. Under the amendment the amount of compensation payable is no longer a justiciable issue.

Conclusion. These are a few indicators of the trends towards democratic socialism. But it will be idle to pretend that we are anywhere near the goal or that we can attain it in any foreseeable future. For some time at least it will serve more as a political slogan than a concrete and realisable objective. To be realistic we must take it that private sector will stay. Since for some years our emphasis is more on production rather than on distribution, we have to humour the private sector which means it will become stronger and not weaker. It is also clear that in the agrarian sector, joint co-operative farming cannot be thrust on unwilling peasants. Most of the land legislation enacted so far has remained a dead letter because the big landlords have adopted various subterfuges to dodge the land laws. There is no doubt that equal opportunities are being created for the poor and the under-privileged by means of scholarships and other aids, but there is little evidence of inequalities being reduced. To attain equality of income and wealth in a poor and underdeveloped country is a myth and a mirage. Equality is as much a product of affluence as of socialism. Rising prices have economically ruined the small peasant, the factory worker and the middle and the fixed-income classes. The big man, a zamindar or an industrialist, thrives through corruption and becomes fatter and fatter so that the gulf seems to be widening between the 'haves' and 'have-nots'. We must therefore take democratic socialism more as an inspiring ideal and a distant goal rather than a concrete reality. Rapid economic development is the panacea for most economic and political ills. It will take us more rapidly towards our goal of democratic socialism.

"What is most important is to keep in mind the basic truth that economic development is a democratising and socialistic process. It continues widening the mental and material horizon of the lowest human creature with a view to ensuring continuous rise in the national economic index. Without expansion of the economic capacity of the poorest human creature, it is impossible for the national index to register continuous progress. On the other hand, unless the national politico-economic climate most congenial to investment in human and physical resources is created, the horizon of common man would fail to expand to sustain economic development as a continuous process. If economic development is to be a continuous process, it cannot be confined to any narrow sector, say, the private monopoly sector. If the national mind is decided on the issue of a continuous and high rate of economic development, socialism will be the inevitable consequence in all sectors—farm and factories."[1]

The Problem of Inequality—Mahalanobis Committee Report

One of the most pressing problems that is facing statesmen in our times is the problem of reducing inequalities in income and

1. G. S. Mandal, an article on 'Reflections on Democracy', 'Socialism and Farm Economy' in *Economic Weekly*, January 19, 1964.

wealth. Inequality is the inevitable outcome of the system of private property. While it is perpetuated by laws of inheritance it arises on account of differences in natural qualities or acquired talent or from luck and opportunity; and it is supported and strengthened by family influence. Economic inequality leads to serious consequences, e.g., class-conflict, exploitation, political domination, moral degradation, and is opposed to the dignity of man. It is therefore an earnest endeavour of all modern States to redress these inequalities by measures like minimum wage fixation, provision of social security and equality of opportunity, steeply-graded taxation, etc.

The Indian planners have been much worried about the concentration of economic power in a few hands. The country is pledged to the establishment of socialist pattern of society and reduction and eventual elimination of inequalities of income and wealth. The anxiety of the planners is to ensure that benefits of development should infiltrate as much as possible to the lower strata of society. We must combine industrialisation with social justice and economic development, with dispersal of economic power. The Indian Government is pledged to pursue policies that will further the twin objectives of lessening economic inequalities and promoting economic growth.

For some time there has been a clamour from the press and the platform to find out if the masses have really benefited from the decade or so of development that we have gone through. The late Prime Minister Pt. Nehru made a statement in the Lok Sabha that it was desirable to appoint an expert committee to inquire into how the additional income generated in the first two Plans has been spread in the country. Accordingly, a Committee was appointed by the Planning Commission in October 1960 under the Chairmanship of Prof. P. C. Mahalanobis. The report of the Committee was published in February 1964. The Committee has arrived at a disturbing conclusion that "despite all countervailing measures, the concentration of economic power in the private sector is more than which could be justified as necessary on functional grounds and it exists both in generalised and specific forms". Already the economic inequality in India was very great but it has been rendered greater still during the first decade of planning. As revealed by Mahalanobis report though there has been some reduction in inequality in the rural sector there has been some increase in inequality in the urban sector. Although some classes, e.g., teachers, have got increased relative incomes, agricultural labour which constitutes the masses; have not made any advance. The wide range of variation that one finds between the top and the bottom tenths of population clearly reveals the existence of concentration of economic power in the country in its most generalised form.

Evidence of Growing Inequality

We may mention here a few facts which go to substantiate

the fact that there is now greater inequality and concentration of economic power than before planning. From the estimates prepared by the Reserve Bank it appears that the top 10% of the householders account for 23 to 28% of the income, while the bottom 20% for 7.5% to 8%. The data collected by the Council of Applied Economic Research reveal that the lowest 10% of the population had only 1.3% of the share of aggregate household income after tax, while the top 10% had a share of 40.4%.

There is a fair degree of concentration of personal wealth in the form of land as well as company shares. In 1960, the companies having a paid-up capital of Rs. 50 lakhs and above constituted only 1.6% of the total number of companies but claimed 53% of the total paid-up capital. The concentration of control in the industrial sector as a whole is even more menacing than in any particular industry. Studies by Dr. R. K. Hazari show that the 20 leading groups had an interest of one kind or another in 963 companies with a share capital of Rs. 236 crores in 1951 and 1,073 companies with a share capital of Rs. 352 crores in 1958 (excluding Government companies). These companies accounted for 29.2% and 32.4% of the share capital of non-Government companies in 1951 and 1958 respectively. The net physical assets of 20 leading groups in 1958 stood at Rs. 501 crores and gross capital stock at Rs. 1,102 crores. This reveals an impressive picture of concentration of economic power in the entire corporate private sector. There is a high degree of concentration in the banking sector too. The aggregate share of the 15 top banks having deposits of Rs. 25 crores and above in total deposits of 363 Indian Joint Stock banks during 1959 was 78%. To make their control firmer and more effective the top industrialists try to control the newspapers through direct ownership as well as indirectly through membership of their boards. The inter-linking between industry and newspaper exists in India to a much larger extent than in any other democratic country. According to the figures given in the Report of the Registrar of Newspapers for 1960 as much as 67.5% of the total circulation of dailies came under the ownership of chains, groups and multiple units.

Other Main Findings of the Mahalanobis Committee

(1) The largest part of the additional income during the decade 1950-51 to 1960-61 had to be used to compensate for the growth in population and only little over 28% or a quarter of the additional income was available for the net increase in per capita consumption. The total available for investment amounted only to Rs. 9,560 crores out of the total additional income of Rs. 19,000 crores.

(2) There is some reduction in equality of income among the tax-paying group as a whole, except the pure salary earners where the picture is mixed.

(3) Trends in wages and salaries received by selected occupation groups over the decade indicate that with the notable exception of agricultural labourers, the growth in income of employees generally kept pace with the growth in average income per employed person for the country as a whole. In particular, the growth in incomes of mining and factory workers has kept ahead of the rate of growth in average income per employed person.

(4) Over the period 1951-59 the average incomes received by the contractors have registered the highest increase.

(5) Self-employed persons engaged in business (manufacture, trade, transport and financial business) and the salaried class among the tax-payers have also increased their income but the rate of growth in their incomes has just kept pace with the rate at which average income per employed person has grown.

(6) There is no clear indication of a significant change in income distribution over the plan decade.

(7) The degree of inequality in wealth distribution is higher than that in income distribution.

(8) Even after 10 years of planning and despite fairly heavy schemes of taxation on the upper incomes, there is a considerable measure of concentration in urban incomes. This would also hold for rural incomes, as in their case even the burden of taxation is not heavy on the higher ranges of incomes.

(9) The distribution of wealth by size of holdings of agricultural land is extremely unequal.

(10) While the number of companies is large, a small number of companies accounts for a large portion of their paid-up capital.

Thus according to the Mahalanobis Committee there exists at the end of 10 years of planning a considerable degree of inequality in the distribution of economic assets and concentration of economic power in the hands of a numerically small section of the population. There is concentration of economic power within the economy in terms of income, property and especially control over the non-Government corporate sector. The Committee adds that there is also a considerable measure of inequality in the distribution of income and wealth in several other developed and developing countries. But that is a poor consolation for us If a bad thing exists elsewhere, it does not become good here.

Factors Helping Concentration of Economic Power

Several forces and factors operating in the economy during the last 10 years or so have increased concentration of economic power and have thus created economic inequalities. It seems to be an inevitable outcome of the process of development.

(1) **Financial Aid.** The growth of the private sector in in-

-dustry and especially of the big companies has been facilitated by the financial assistance from the financial institutions like the Industrial Finance Corporation, and other institutions like Industrial Development Corporation.

(2) **Bank Credit.** The bank credit has also played an impressive role in financing the growth of industry. The main beneficiaries of the bank credit being made increasingly available in the last few years have been the big and medium enterprises. The advances to small enterprises in 1960 were insignificant, barely 5% of the total bank advances to industries.

(3) **L.I.C. Support.** The Life Insurance Corporation, which is a nationalised institution, helps the big business in industry by holding stock exchange securities.

(4) **Individual Financiers.** The individual financiers and investors too show a preference for investing in shares of large companies.

"Thus the operation of the economic system with its criteria of credit-worthiness and security for lending and investment, tends to support the large and established enterprise against the small and struggling entrepreneur."

(5) **Government Policy.** During the period of planning, the Government policy also has been responsible for the growth of big companies. In addition to affording a protected market and the necessary overhead facilities and maintaining a budget policy with a mildly inflationary trend, the Government has been promoting the growth of private industry by extensive tax incentives. The bigger businessman has been in a better position to take advantage of these tax concessions and rebates and has been consequently flourishing.

(6) **Economies of Scale.** The economies of scale arising out of administrative and financial integration also help in the creation of bigger business units. They have tended to grow bigger and bigger.

(7) **Inter-locking Devices.** In addition to common managing agencies, there are common directors or inter-locking directorates, inter-locking between directorship of banks and non-Government industrial undertakings. Foreign collaboration and technical know-how have also been available to big businesses. Inter-corporate investment has been the main instrument for the control of companies.

There have been thus several influences at work which have facilitated the creation of bigger industrial units and consequent concentration of economic power.

Remedies

It must be conceded that the growth of big business as such, though indicating the existence of economic concentration, does not necessarily mean an anti-social development. In Germany

after the First World War rationalisation of industry (which was called New Industrial Revolution), involving amalgamation and closing of small uneconomic units, was deliberately encouraged and supported by the State. From Germany the movement spread elsewhere. The movement was intended to cut down costs and increase the competitive strength of the industry in foreign competitions. In our drive to increase export earnings, cutting down of costs is a great necessity. From this point of view, growth of big business should be welcome. But human nature being what it is, it becomes necessary to adopt measures to curb profit-hunting propensities of big business and turn them into instruments of social good rather than of private gain.

Splitting of big businesses into smaller units is no remedy. It will turn them into uneconomic units and will lead to waste. On purely economic grounds, therefore, we must be prepared to reconcile ourselves to the existence of large business units, especially in the context of our scarce resources and the imperative need for making the most economic utilisation of these resources. What we must do is to safeguard against the emergence of anti-social consequences from the otherwise economically justifiable localised concentration in the form of big units in one industry or the other. There is every reason for controlling and regulating their operations so that they do not become instruments of exploitation and anti-social practices.

The following countervailing measures can be suggested to check unhealthy developments to reduce inequalities :—

(1) **Company Law Reforms**. The Company Law Administration reports have revealed several types of malpractices and anti-social activities indulged in by the company managements. Series of amending acts passed in recent years have failed to eliminate the abuses of the managing agency system so far. Further reforms are indicated.

(2) **Licensing System**. Under the Industries (Development and Regulation) Act, we have introduced the licensing system for the new industrial units. But the big business man is able to dodge and get over all obstacles to have his way. It is necessary to exercise more careful scrutiny of the new industrial ventures and put a strong foot down on proposals which smack of concentration and monopoly.

(3) **Control over Capital Issues**. Already the new capital issues are under Government control. But it seems the control has not been effective in checking monopolistic tendencies. More stringent control should be exercised henceforward from this point of view.

(4) **Selective Credit Control by Reserve Bank**. The selective credit controls by the Reserve Bank have been in operation in India for some years now. They can also be utilised with some effect to restrain monopolistic trends in business and industry.

(5) **Expansion of Public Sector.** The expansion of the public sector industries should be undertaken in a big way as a counterpoise to the development of big business in private sector.

(6) **Encouragement of Small Entrepreneur.** Small enterprises should be specially encouraged in every possible manner so that they grow in vitality and make breaches in the monopolistic power of the big business.

(7) **Co-operative Enterprise.** Another instrument to balance the undue growth of big business in private sector is the decentralised sector in the form of co-operative enterprise. Co-operation works for common good rather than for private and personal gain. Co-operation can give proper protection to the small producer as well as consumer. It can, therefore, fight to some extent the evils of monopolistic organisations.

(8) **Encouragement of New Enterprise.** Special concession and incentives may be provided to the new entrants in an industry where monopolistic tendencies have appeared. They can be used to break monopolies. But care has to be taken that the old, well-established concerns do not appear under a new name to defeat this policy.

(9) **Taxation.** Suitable taxes may be imposed on the growing monopolies. Maximum limit may be imposed on dividends. The object is to take away incentives to grow big to exploit the weak links in the economy without losing the benefits of the economies of scale. Steps should be taken to ensure that big businesses function more as trustees for the general welfare rather than to make profit for themselves.

(10) **Social Security.** Fixing the minimum wages of the various categories of wages, widespread provision of unemployment and sickness insurance benefits and old-age pensions are some of the measures that can be taken to make the poor less poor and thus narrow down the gulf between the rich and the poor.

That the economic inequalities have been accentuated in India during the decade of planning shows that the strategy adopted so far to reduce inequalities has not been successful. There is need not only for intensification of the countervailing measures but honest and effective implementation of the measures already adopted. It is necessary to devise more adequate corrective measures in consonance with economic growth objectives. In the words of Mahalanobis Committee report, "the task is not easy. The country has a mixed economy; and the private sector has an important role to play in its planned economic development. Industrialisation has its own logic, and neither the economies of scale nor that of full utilisation of scarce talent can be ignored with impunity".

The Mahalanobis Committee suggested that a full-time agency should be set up to study the extent of concentration of

economic power and recommend suitable measures. Accordingly, the Monopoly Inquiry Commission was set up and started functioning in May 1964 under the chairmanship of Mr. Justice K. C. Das Gupta. Among other things the Monopolies Commission is

(a) to inquire into the extent and effect of concentration of economic power in private hands and the prevalence of monopolistic and restrictive practices,

(b) to assess their social and economic consequences and the extent to which they might work to the common detriment, and

(c) to suggest such legislative and other measures that might be considered necessary in the light of such inquiries.

It is thus gratifying to note that the Government of India are quite alive to the dangers of monopolistic tendencies in a developing economy and are anxious to safeguard common welfare from such menacing developments.

CHAPTER XXXVIII

Balanced Regional Development

Meaning

A great attention is being paid to balanced regional development in modern times. Economically advanced countries do not want that any region in their country should remain economically backward or under-developed. Developing countries also are anxious to avoid the evils arising from haphazard over-concentration of industry in certain areas and they are keen on uniform economic development. There are few believers now in laissez-faire and global division of labour. On the other hand, Weber's theory of industrial location as the basis of economic planning draws increasing numbers of ardent supporters. Royal Commission on the Distribution of Industrial Population and the report of the Political and Economic Planning (P.E.P.) group paid lot of attention to the development of backward areas in England. The National Resources Planning Board thoroughly examined the question of regional planning in the U.S.A. The Tennesse Valley Authority (T.V.A.) has served as a model in the process of development of backward areas. Similarly in other industrialised countries efforts are being directed towards the development of agricultural regions in order to harmonise the interests of both industrial cities, large country towns and villages in an integrated scheme of planned economic development. But what do we exactly mean by balanced regional development?

From one point of view, regional balance implies uniform *distribution of the planned investment among different regions of the country. From another point of view, regional balance requires a distribution of investment in such a manner that the* regional rates of growth be equal, thus eliminating regional disparities of growth rates that have prevailed so far. Neither of these interpretations is consistent with the accepted social objective of reduction of prevailing inequalities. On the contrary, they would lead to a situation of increasing regional inequality.

To diminish regional disparities, it is necessary that the backward regions should plan to have a higher rate of growth than the developed areas. Balanced regional development in the context of India's social goals can mean only this and nothing else.

Desirability

Regional balanced development is advocated on several grounds, social, economic and political. It is mainly advocated for redressing inequalities between regions and for raising living standards to a uniformly high level. "In any comprehensive plan of development, it is axiomatic that the special need of less developed areas should receive due attention. The pattern of development must be so devised as to lead to balanced regional development".[1] From the economic point of view, we advocate regional development for mobilisation and conservation of resources and for their most efficient utilisation. Left to itself, economic development tends to become uneven over a geographical plane. There is a strong tendency for spatial clustering. "It clusters round a location nucleus till diminishing returns or other diseconomies of congestion begin to exert centrifugal effect." Such a situation must be avoided so that resources are not wasted. Neglecting rural areas would mean imperfect utilisation of the available resources. From the social point of view, it is necessary to avoid the evils of concentration of huge mass of population in a few big industrial centres which lack accommodation, where diseases spread on account of congestion and where life is unhealthy and unhygienic and where the cost of living is very high. From the political point of view also, it is necessary to pay attention to the development of all regions to avoid political discontent in neglected areas. A balanced regional development will make for political stability. Benefits of investment must therefore be extended also to under-developed regions to build up a diversified economy. "Regionalism thus aims at a continuity of the vast current of resources, energies and services for the permanence of the community through conservation and implementation, and not through exploitation, and transformation of these resources, energies and services into higher values furnishing a permanent dynamics for human culture free from the artificiality and emptiness of technological society. It establishes an equilibrium between the people and the heritage of the region".[2] This is no doubt a very noble aim. Thus, within the resources available, every effort must be made to provide for balanced development as between different regions of the country. *There are no two opinions as to the desirability, nay urgent necessity, of a balanced regional development.* Regional development means the economic development of all the regions, raising their per capita income and living standards and fully exploiting their natural and human resources. It does not, how-

1. *Second Five-Year* Plan, p. 36.
2. R. K. Mukerjee—*Social Ecology*, pp. 316-18.

ever, mean economic self-sufficiency, because no region, however rich, can in modern times attain self-sufficiency; no region can possess all the raw material, power resources, etc., or is capable of meeting all their requirements.

Indicators of Backwardness

The desirability of balanced regional development having been conceded, it now becomes necessary to spot out the under-developed areas so that attention may be paid to their development. This is the first step in the process of balanced regional development. The following are some of the indicators of economic backwardness:—

(a) **Per Capita Income.** One comprehensive test of a region's backwardness is the low income per capita of the region as compared with per capita income of the nation as a whole. Per capita income is the essence of the level of economic activity in the region. Judged from this standard Bihar (per capita income Rs. 149), Uttar Pradesh (Rs. 178), Orissa (Rs. 187), Mysore (Rs. 203) and Madhya Pradesh (Rs. 216) must be adjudged backward against an All-India per capita income of Rs 255 in 1955-56. But each State has backward regions of its own. In Andhra Pradesh, districts of Warrangal (Rs. 147 per capita income) and Visakhapatnam (Rs. 167) are backward; in Assam Garo Hills (Rs. 144), Goalpara (Rs. 180) and Mizo Hills (Rs. 182); in Bihar districts of Darbhanga (Rs. 96), Saran (Rs. 96), Muzaffarnagar (Rs. 102) and Monghyr (Rs. 113); in Gujarat districts of Amroli (Rs. 174), Banaskatha (Rs. 179) and Panchmahal; in Madhya Pradesh the districts of Sidhi, Rewa and Rajgarh; in Madras the districts of Salem, Ramnad and Chingleput; in Maharashtra the districts of Bihar, North Satara, South Satara and Ratnagiri; in Mysore the districts of Tumkur, Mandya and Gulbarga; in Orissa the districts of Mayurbhanj, Balasore and Kalahandi; in Uttar Pradesh districts of Peoria (Rs. 98), Almora (Rs. 115), Azamgarh (Rs. 130), Tehri Garhwal (Rs. 84) and Basti (Rs 122); and in West Bengal Malda (Rs. 170), Midnapore (Rs. 184); Murshidabad (Rs. 189), Nadia (Rs. 193) and West Dinajpur (Rs. 158). This is a short list of backward areas in India for whose development special attention is needed.

(b) **Agricultural Output Per Capita.** Another index of under-development of a region is the low agricultural output per capita. It means that in these regions even agriculture is not being efficiently done. As against Rs. 187.21 for all States, the gross value of output per acre is Rs. 84.41 in Rajasthan, Rs. 125.20 in Madhya Pradesh, Rs. 152 in Maharashtra, Rs. 153 in Gujarat and Rs. 164 in Himachal Pradesh. They are thus backward even from agricultural point of view.

Other indicators are:—

(c) **Irrigated Area.**

(d) **Industrial Development.**

In Bihar, Orissa and Madhya Pradesh, the percentage contribution of manufactures to their total income ranges from 11% to 14%, whereas the contribution of agriculture ranges from 54% to 59%. Obviously these States are economically backward.

(e) **Electrification.**

(f) **Road Mileage.**

(g) **Educational and Medical Facilities.**

These are some of the indicators which show the level of economic development attained by a region.

Measures

Having spotted the under-developed areas on the basis of indicators mentioned above, we should now see what measures are required to step up their development. The measures to be taken in this connection may be divided into (a) short-run measures and (b) long-run measures. In the short run, avenues should be explored for large-scale rural labour mobilisation. Labour intensive projects would be most suitable in this connection. Investment intended for the backward areas should be made on low cost rural labour and locally available raw materials. What is necessary is to expand employment opportunities for the rural population. This would add to their incomes and they will get a feeling of 'better-offness'. Such agricultural and industrial projects should be selected as yield immediate returns. This would help future growth. Such projects are minor irrigation works in the locality, land reclamation, afforestation, means of transport and communication, e.g., local roads, and such other projects as improve labour mobility.

In the long run, it will be necessary gradually to locate in backward areas viable and economically efficient industrial units. This should be done in strictest regard to economic efficiency. In other words, such industries should be established for the development of which the region offers facilities in the way of raw materials or markets or other advantages. The Government may, however, give special facilities, e.g., favourable railway rates for carrying grains, price policies protecting the growers from the vagaries of the free market as from the vagaries of nature by means of irrigation and other crop protection measures. Industrial investment is not the only way. Encouraging agricultural export and import substituting output would also be quite effective.

Another set of measures that can be safely adopted, and should be adopted without delay, relates to education, technical training and public health measures. It will enrich human capital and develop skills which will assist future growth. It will also improve income distribution and equality of opportunity. This will be in keeping with our goal of achieving a socialistic pattern.

There are two approaches to the question of balanced regional development:

(a) Industry-to-industry Approach, and

(b) Metropolitan Development Approach.

According to the first approach, we prepare a list of industries to be established or developed further and find for them suitable locations. Their location will be determined by the fact whether they are materials-oriented or market-oriented. According to the metropolitan development approach, we take about 30 big industrial cities and so devise the development of their neighbouring areas as to minimise the evils of concentration and congestion and also reap the benefits of favourable local factors. These two approaches indicate the more practical way than preparing a single plan of regional development for the entire country.

Criterion

The guiding principle in these investments is the economically efficient allocation of resources. Economic rationality is of crucial importance. We must respect 'natural rhythm' and 'natural sequence' in economic development. It can be upset only at the cost of the development of other regions. Some areas are better endowed than others with natural resources. It will help national growth by concentrating investment in such fortunately placed areas. There is thus a powerful tendency and motivation to agglomerate industrial investment at selected areas because of external economies, e.g., social overheads, service industries, skilled labour pools, expert management and banking and other commercial facilities. "External economies then tend to accommodate the induced resources with a growing pattern of interdependent industries. Economic growth thus becomes self-generating in a spatial configuration of the agglomerative tendencies."[1]

Thus regions with existing advantages can grow at a faster rate and their growth should be assisted in every possible manner. It will have beneficial repercussions on the development of retarded areas. Rapidly growing areas yield surpluses for future investments; profits of expanding enterprises will facilitate larger savings. They will first be ploughed back in those very enterprises but will, in course of time, be channelled to other regions. Thus new growing points will emerge in stagnant regions. "It is a paradoxical conclusion that for developing the retarded areas the growth of the more advanced areas must be encouraged, otherwise backward areas will be doomed to an even longer period of waiting and poverty." Hence investments in the backward areas must be made subject to the paramount necessity of maintaining national growth at the desired rate.

1. Wagle, S. S.: *Technique of Planning*, p. 205.

In other words, expenditure in backward areas should have minimum adverse effect on national growth and savings. This is the fundamental principle. In the context of present Indian conditions any extensive investment in the direction of regional balance is bound to interfere with securing even 5% rate of annual growth laid down in the Third Plan. The States must therefore avoid undesirable competition in what is called 'conspicuous investment' and help to create an integrated national economy.

Difficulties

Some difficulties can obviously be anticipated in the way of the achievement of regional balance. In the first place, difficulty arises from the uneven distribution of national resources over regions so that every region cannot claim that all important industries should be located there. Basic industries like iron and steel are resource-oriented and must be located in areas of iron ore deposits. The plant has to be of a size that a country can afford to set up only a small number. This limits the possibility of geographical dispersal of planned investment on the basis of regional balance. Thus there is a conflict between the objective of having heavy industries and the goal of regional balance. The three new steel plants in India absorbed nearly 70% of the total investment in industrial projects in the public sector and had to be located purely on the basis of proximity to natural resource deposits. This difficulty can be overcome by wider dispersal of investment in agriculture, small industries, transport and communications, social services, etc.

Another difficulty arises, as pointed out already, from the conflict between regional balance and rapid growth of national output. Investment must be concentrated on a limited number of 'growth points' or 'growth-poles' as they are called. This refers to a small number of big industrial cities in India round which forms a nucleus of skilled labour, a ready supply of raw materials, cheap and efficient transport, banking facilities and social overheads and other external economies. These economies make the city specially attractive for industrial location and attracts more and more investment at the expense of other regions. This accentuates regional disparities. As Prof. Hirschman says, "Inter-regional inequality of growth is an inevitable concomitant and condition of growth itself". But this applies largely to industrial development and has no relevance to agricultural development. But to the extent that 'backward areas' do not coincide with the 'promising area' from agricultural point of view, the pursuit of balanced regional development will reduce the rate of national growth. If the conflict between regional balance and national growth cannot be resolved then the former must be subordinated to the latter. A certain proportion of the total planned investment may still be reserved for the development of backward regions with the object of reducing regional

inequalities. It will also be possible to invest relatively more on social overheads in backward areas.

Then the difficulty arises from the political set-up. In a federal structure, each State scrambles for higher and higher allocation of national resources in its own boundaries. In this scramble the most violent Chief Minister may have the upper hand with little regard for economic considerations. This difficulty can be overcome by making the Planning Commission autonomous.

There will also be a tendency for each region to try to be put in the category of 'backward areas' as all castes scrambled for the 'backward' label to enjoy concessions. But this difficulty can be resolved by applying some objective criteria and indicators mentioned above.

It must also be added that so far India is concerned, the talk of balanced regional development in the present economic conditions is more or less academic. The rich countries of America and Europe, having reached the zenith of industrial progress, may well look round for backward areas for development. But India is a poor country and cannot just now afford this luxury. It will be foolish for India to fritter away its limited resources and thinly spread them over a vast area, some of which may not be congenial for rapid growth. Considering her limited resources, India must concentrate her investments on a few strategic points which quickly respond to efforts at development. We must adopt what Asoka Mehta, Deputy Chairman of the Planning Commission, has called 'selective approach' in order to achieve quick results. Development of backward areas in the sense of industrialising them, must wait till our resources grow sufficiently to meet the requirements of balanced regional development.

Balanced Regional Development and Five-Year Plans

The First Five-Year Plan was only preparatory and the question of balanced regional development did not rise at that stage. The Second Five-Year Plan recognised the necessity of keeping this problem fully in view. It said. "In any comprehensive plan of development, it is axiomatic that the special needs of less developed areas should receive due attention".

The more important programmes contained in the Second Plan were:—

(i) The priority given to programmes like agriculture, community development, irrigation, specially minor irrigation, local development works, etc.;

(ii) provision of facilities such as power, water supply, transport and communications, training institutions, etc., in the areas lagging behind industrially;

(iii) programmes for the expansion of village and small industries; and

(iv) in the location of new enterprises, whether public or private, consideration given to the need for developing a balanced economy.

In addition to these measures, the Second Plan envisaged an effort to promote greater mobility of labour between different parts of the country and to organise schemes of migration and settlement from more to less densely populated areas.

For less developed areas situated in various States as Vidharba and Marathwada, eastern districts of U.P. and hill areas in Punjab, special outlays were provided within the State plans. The location of steel was settled on the basis of expert study and technical considerations, but all the same they have benefited the backward areas. Among the other schemes undertaken to benefit less developed areas may be mentioned the development of lignite deposits in Arcot, iron ore in Orissa, bauxite deposits in Salem and lead deposits in Rajasthan. Several consumer goods industries and processing industries were established to foster regional patterns of development. Typical examples are the establishment of textile units in Rajasthan, Orissa, Assam and Punjab; sugar factories and distilleries in Andhra Pradesh, Madras, Mysore and Maharashtra; steel re-rolling mills in Assam, Madhya Pradesh, Kerala and North Bihar; and tyre and tubes factory and electric lamps factory in Kerala. Industrial estates are increasingly being located in smaller towns and rural areas.

The Second Plan, however, made only a beginning in the direction of achieving a balance in industrial development as between different regions. It thus summed up the position: "Though the Second Plan will not provide solution to the problem of the existing unbalanced growth of industries as between different regions, the problem has been kept in view and, through stress on research, mineral surveys and decentralisation of production, particularly in regard to agricultural processing industries, the correct trends of development are being set in motion".[1]

The Third Five-Year Plan also emphasised the need for balanced development. "Balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and widespread diffusion of industry are among the major aims of planned development".[2] But it was pointed out that the balanced development could be achieved only in successive Five-Year Plans. "Expansion of economy and more rapid growth increase progressively the capacity to achieve better balance between national and regional development". Since the resources are limited, it is more economical at present to concentrate them at those points in the economy at which the returns are likely to be quick and large. The aim is the fullest possible utilisation of the resources of each region, so that it can contribute

1. *Second Five-Year Plan*, p. 416.
2. *Third Five-Year Plan*, p. 142

its best to the national pool and take its due share from the benefits accruing from national development.

The development envisaged in the Third Plan is more comprehensive and on a much larger scale. It therefore provides extensive opportunities for the development of different parts of the country. The State plans are oriented towards the development of backward areas. In addition to the role assigned to the State plans, there are several important features of the Third Plan which are intended to benefit the less developed areas. For instance, it provides for intensive development of agriculture, extension of irrigation, development of village and small industries, large-scale expansion of power, development of roads and road transport, provision for education, secondary, technical and vocational, schemes for water supply, etc. The large programme of rural works incorporated in the Third Plan is expected to expand opportunities for work. The Planning Commission allotted Rs. 3.5 crores to the State Governments for the local development works programme.

Some backward areas will have a significant share in industrial development. For example, Orissa benefits from the expansion of Rourkela Steel Plant and the establishment of fertilizer factory; Kerala will benefit from construction of shipyard; Andhra Pradesh from Visakhapatnam dock, expansion of the shipyard, and the Andhra paper mills; Madhya Pradesh benefits from Nepa mills, the Bhilai Steel Plant and Heavy Electrical project. Other such projects are antibiotics factory, fertilizer factory, refractories plant in Uttar Pradesh; development of copper deposits in Rajasthan, a machine tool factory in Punjab; Neyveli lignite plant and steel rolling mill in Madras, oil refinery in Gujarat and a cement factory in Jammu and Kashmir. It is proposed to start new textile mills and light engineering industries in backward areas. Among the projects expected to be set up in private sector for the benefit of under-developed regions may be mentioned an aluminium plant in Uttar Pradesh, a fertiliser factory, a nylon factory, caustic soda factory in Rajasthan, synthetic rubber and paper pulp factory in Assam and an automobile factory in Kerala.

There is also a proposal to set up industrial development area in backward regions. In selected areas of such regions will be provided basic facilities like power, water, communications, factory sites developed for medium-sized industries along which small-scale industries might also grow.

Besides, every major project should be regarded as a nucleus for integrated development of the region as a whole. A number of schemes aiming at the development of improved agriculture, processing and other industries can be taken up around each multipurpose project. Similarly, steel plants and other large industrial projects provide a basis for the development of small and medium industries and for programmes of education and

training. Financial provision has been made in the State plans for expansion of the general education base and for technical training. This would remove a great handicap of the less-developed areas in achieving rapid economic progress. Also, it will improve labour mobility for technically trained people who can easily move from one area to another.

Special study group has been set up for assessing the levels of development in different regions. The indicators of such development are agricultural production, industrial production, investment, unemployment, electricity consumption, irrigated area, value of output by commodity producing sectors, levels of consumption expenditure, road mileage, primary and secondary education, occupational distribution of population, etc. One such survey has recently been done in respect of four districts of Eastern Uttar Pradesh. In order to identify the problems of different regions and assessing their needs and potentialities, scientific and technical surveys are undertaken by special agencies like Gas Commission, Central Water and Power Commission, Indian Council of Agricultural Research, Council of Scientific and Industrial Research, etc.

Conclusion. 'A Little Done and Vast Undone' is the sum total of the efforts made in India so far in the direction of balanced regional development. But development of regions and of the national economy as a whole must be viewed as parts of a single process and we must guard against putting excessive emphasis on the problems of particular regions for the time being. Different regions can realise their full potential for growth only as integral parts of the country. As the national economy advances forward and there is a rise in the living standards of the people, regional development will also take shape. For this the regions must wait patiently and in the meantime be content with investments in agricultural development, rural works programmes and social overheads.

As for the Fourth Plan, the Planning Commission has put forward some concrete measures to achieve balanced development of industries. The Commission says that when other things are nearly equal, weightage should be given to backward States for the location of new public-sector industries. Urbanisation having reached a saturation limit in the metropolitan areas of Bombay and Calcutta, it will be desirable to think of other nucleii for industrial development. Thus these two States must now make appropriate provision for the development of new centres of industry. The location pattern for new sugar mills may be based on a deliberate policy of industrialisation in rural areas. Similarly, the location pattern of the agro-based consumer industries may also be oriented towards the rural areas in contiguity to the supply of raw materials instead of their concentration at the centres already developed.

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